

Report to: Audit & Risk Assurance Committee
Agenda item: 4
Date: 8 June 2016
Subject: Authority Quarterly Update
Sponsor: Authority Interim Finance Director
For: Information

1. Purpose of Paper

- 1.1 The purpose of this report is to inform the Audit and Risk Committee of significant developments within the Authority Executive since the last Audit and Risk Committee meeting.

2. BTPA Statement of Accounts

- 2.1 The year-end process is drawing to a close and the NAO have completed the onsite element of their audit. Reports covering the Financial Statements and the external audit are included as a separate item.

3. Frith Street Forensic Review

- 3.1 Frith Street Consulting submitted a proposal for fraud risk assurance work to the BTP/A in October 2015. The proposal outlined tests that might be undertaken to give assurance that the weaknesses identified in Phase 2 of the Finance Review had not resulted in any fraud or loss to the BTP and BTPA.
- 3.2 The BTPA Audit and Risk Assurance Committee through the Authority Treasurer instructed Frith Street to undertake the procedures laid out in the proposal document.
- 3.3 This work has now been completed and a finalised report from Frith Street Consulting has been attached to this update in item 4.1.
- 3.4 Subject to the outcome of the first data analysis of supplier and staff records following BTP/BTPA's sign-up to the National Fraud Initiative, Frith Street can provide reasonable assurance that it is unlikely any finance officials have been involved the processing of fraudulent payments or the suppression of records since April 2012.
- 3.5 A report updating the work undertaken regarding NFI and similar in-house analysis has been provided in agenda item number 8 (previous update in Item 1 Appendix A).

4. Finance Action Plan

- 4.1 The paper at the previous Audit and Risk Committee noted that focus in March remained on the year-end priorities in terms of risk to the financial accounts and audit process.
- 4.2 Since we are nearing the end of this process the attention of the Finance Action Plan sessions has been shifted back to the original plan submitted to the DfT. The goals and actions have been added to where new issues have been identified. These have been redistributed into three headings of short, medium and long term to ensure sufficient focus is given to both issues requiring immediate attention as well as those long term actions which require more consideration and discussion.
- 4.3 As the Action Plan and reporting becomes re-orientated post-accounts we will continue to keep members and DfT apprised of progress.

5. DfT Management Assurance Return 12 month submission

- 5.1 The MAR is issued to all ALBs by the DfT each year to help inform them of disclosures they need to make regarding risk within the group. Two submissions are required; one at the nine month stage and one at full year.
- 5.2 The Audit Committee reviewed and provided comments on the nine month submission at March Committee, ultimately authorising the Chief Executive to submit the return.
- 5.3 Audit Committee members were provided a copy of the twelve month MAR submission outside of Committee on 11 May 2016 for feedback and commentary. All responses (yes,no,n/a) remained the same as the nine month return on the basis that if a shortcoming has been present at any time during the year the response remains a "no". This is despite the significant progress made to rectify the identified shortcomings. No new issues had been identified since the nine month return.
- 5.4 The only update for the twelve month return had been the inclusion of commentary from BTP highlighting actions being taken to respond to the issues. Detail of these plans will be provided in greater detail to the Audit Committee in due course.
- 5.5 Any queries received from Audit Committee members were responded to and changes made as required.
- 5.6 The final submission was made on 13 May 2016 and is attached in item 4.2.

6. Direct debit / cash flow update

- 6.1 Since the previous Audit Committee we have had two incidents relating to the direct debit process regarding the receipt of funds from PSA holders. One where funds were taken too early, and one where funds were taken after that agreed date.
- 6.2 A separate paper has been prepared by BTP to brief the Finance Committee (meeting 08 June 2016) on this matter.
- 6.3 This event highlights another area of control weakness existent within the finance function that requires further strengthening.

7. Police Service Agreements

- 7.1 The 16/17 PSA charges were communicated to the industry on the 2 March 2016. The charges included the 2014/15 'wash-up' adjustment and were the first ones calculated in the post-restructure regime. The PSA holders were encouraged to contact the BTPA with a view to obtain a full understanding of the charge calculation method as well as the restructure implications. The following PSA Holders accepted the invitation to meet:

PSA Holder	Meeting Summary
Northern Rail	As a result of the 'wash-up' the PSA holder received a credit for the 14/15 PSA charge. The meeting was primarily focussed on the charge calculation methodology with a view to help with forecasting of future charges. There were no major issues arising from the meeting and all requested documents were provided to the PSA Holder.
South West Trains	The PSA holder's charge increased by 22.38% due to a combined effect of the relative increase of the South West Trains proxies, an increased policing cost in Subdivision South and the restructure impact. After several meetings with the PSA holder and attempts to set out the cost apportionment model methodology, South West Trains still express concern that they were not consulted on the cost implications of the restructure. They will not accept the full 16/17 PSA charge until the consultation evidence is provided. South West Trains did not appreciate the significant cost increase in Subdivision South and suggest they did not notice any benefits arising from that. South West trains are therefore in breach of the PSA.
Cross Country	The PSA holder accepted the meeting invitation with a view to get a better understanding of the charge calculation methodology and to incorporate the logic into the future budget planning processes. All requested documents were provided.
Network Rail	The PSA holder was concerned about the charge increase and wanted to understand the drivers behind it. It was accepted

	that the increase arose from the updated footfall numbers, however initially they did not agree they should be excluded from the redistribution of station costs. After a brief email exchange and more details having been provided, the methodology was accepted. Concern was expressed about the quality of the Command & Control data.
Govia Thameslink	The increase of the 16/17 charge was a reason for concern and initially there was a misunderstanding arising from a split of the 14/15 'wash-up' charge across FCC and Thameslink. All details behind the charge calculation were explained, additional analysis provided. BTPA are in the process of calculating the 15/16 actual charge estimate on the PSA holder's request. Concern was expressed about the volatility of the Command & Control data.
Southeastern	The causes for the Southeastern charge increase were the same as for South West Trains. The PSA holder was focussed more on understanding how the charge was calculated rather than challenging it. There were no follow up questions after all requested information was provided to them.
Crossrail	The focus of discussions with Crossrail was regarding the future charge changes along with expanding Crossrail operations. BTPA offered to conduct a sensitivity analysis of the Crossrail charge in line with their expansion. This will be done along with the calculation of the 15/16 'wash-up' charges.
London Overground	There was concern over the charge increase and a suggestion that London Overground were paying twice for taking over new 24 stations. BTPA explained that the increase was mainly driven by an increase in station usage statistics and provided them with all the requested information. The Stratford station was incorrectly allocated to London Overground (instead of Crossrail), which will be adjusted for in the 16/17 'wash-up'.
Merseyrail	Meeting due to take place 13 June. The intention is to explain the charge calculation methodology in detail to help with the company's budget planning process.
Croydon Tramlink	The charge calculation reports and the model demo were provided to the PSA holder. BTPA are in the process of arranging a meeting with a view to address any follow up questions.
Heathrow Express	The detailed PSA charge calculation report was requested. BTPA have not received any follow up questions after circulating.
Grand Central	The detailed PSA charge calculation report was requested. BTPA have not received any follow up questions after circulating.
DB Schenker	The PSA holder continues to dispute the 20015/16 and 2016/17 provisional charges. A meeting is being held 02 June 2016. Any progress made as a result of this meeting will be provided verbally at the Audit Committee.

8. Gifts and Hospitality Register

- 8.1 In line with good governance in public bodies, a copy of the Gifts and Hospitality which have been received, accepted or declined by BTPA Members and BTPA Executive Senior Staff for oversight is prepared. Item 4.3 lists the full details.

9. Recommendations

- 9.1 Members are asked to note the quarterly update report.
- 9.2 Members are asked to approve the content of the Frith Street report as final.
- 9.3 Members are asked to note that the twelve month return was reviewed and approved by them out of Committee in May 2016.
- 9.4 Members are asked to note the gifts and hospitality register.