

# Transport for Wales

Audit and Assurance Policy  
for the three years ending  
31 March 2024



TRAFNIDIAETH CYMRU  
TRANSPORT FOR WALES



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## Introduction

Transport for Wales' (TfW's) Audit and Risk Committee, with the support of its Board, has determined that preparing and publishing an Audit and Assurance Policy will enhance transparency over TfW's audit and assurance processes. In particular, the Audit and Risk Committee wishes to ensure that its shareholder and stakeholders are consulted and have an opportunity to provide their input to the Audit and Assurance Policy annually, as it is a three-year rolling document.

In August 2021 TfW's Audit and Risk Committee prepared and approved a draft Audit and Assurance Policy for the three years ending 31 March 2024, and published it for consultation on TfW's website on 1 September 2021.

Face-to-face interviews (mainly by video conference) were carried out with representatives of the shareholder and [x] stakeholders between 1 September and 31 October 2021 and separate written responses were received from a further [x] stakeholders.

TfW's Audit and Risk Committee reviewed all the responses received, and incorporated all the recommendations made by the respondents. If a recommendation was not incorporated, the Audit and Risk Committee provided an oral or written response explaining the reason why the recommendation would not be incorporated. Generally, in the face-to-face interviews, agreement took place during the meeting

This Audit and Assurance Policy, after completion of the consultation was presented by TfW's Audit and Risk Committee was approved by the Board [at its meeting held on 18 November 2021].

## Consultation

Set out at the bottom of each section are items in blue on which the Audit and Risk Committee is requesting specific feedback.

Respondents are free to comment on any aspect of this Audit and Assurance Policy and also matters which they believe should be considered, but are not currently included in this draft





## TfW's risk and internal control framework

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## TfW's risk and internal control framework

TfW's risk and internal control framework is continually evolving as TfW acquires more responsibilities for implementing Welsh Government policy. Oversight of the risk and internal control framework is also changing to reflect the underlying activity and provide comfort and assurance to the Senior Leadership Team, the Audit and Risk Committee and the Board that the framework is operating efficiently and most importantly effectively.

## TfW's approach to risk

TfW's internal control framework has adopted a three lines of defence model (further details are provided below), this ensures the right level of accountability and oversight for enterprise risks and issues.

The second line of defence provides through technical expertise, subject matter such as engineering, project management, safety, sustainability provides assurance, to the Safety and Sustainability Director who is effectively the Chief Risk Officer. The third line of defence is provided to the Board by the Audit and Risk Committee, supported by the internal audit function.

The organisational structure is aligned to the three lines of defence model and is designed to support TfW's management of risk. The TfW Board has the principal oversight responsibility, in conjunction with TfW's Accounting Officer, with detailed oversight activity carried out by the Audit and Risk Committee. The Board sets organisational risk appetite, reviews emerging corporate risks and mitigations, approves priorities for risk management activities and supports horizon scanning for new corporate risks.

The Senior Leadership Team is accountable for ensuring each directorate follows the organisational process for adding and maintaining risks on ARM, the software programme used throughout the TfW group, to track mitigation actions, escalation and new risks.

At each Board meeting a discussion takes place on TfW's Principal Risks how the risk may have changed since the last meeting, the actions that have been taken or planned to mitigate these risks and receives assurance from the Safety and Sustainability Director on progress or otherwise in relation to each Principal Risk and emerging risks.

Set out in Appendix A is the Board of TfW's current view of the Principal Risks that TfW faces.

## Fraud risk

TfW has commenced a fraud risk assessment to endeavour to identify any gaps or weakness in its framework for preventing and detecting fraud.

The major fraud risks currently facing TfW are in the area of procurement and non-payment of fares. In relation to procurement, TfW adopts best public sector practice to ensure that suppliers are who they say they are, that the prices quoted are market tested through a thorough public tender processes and strict controls and limits are applied, including approval by the Board where necessary, where contracts are sourced with only one supplier.

The issue of non-payment of fares has increased during the COVID-19 pandemic as a result of the absence of being able to check tickets on trains, low staffing levels at stations and rightly the greater focus on social-distancing by British Transport Police, as opposed to the payment of fares.

TfW only took over full responsibility for fare collection in February 2021 and action to reduce the level of non-payment will only be able to begin again in earnest when the current COVID-19 restrictions are fully lifted.

## Financial reporting risk

TfW's systems are currently being reviewed and consolidated as a result of the acquisition of the operations of TfW Rail and the principal steps in establishing a framework of internal controls over financial reporting is well underway.

Namely:

- » Carrying out the initial assessment and ensuring entity level controls are appropriate and identifying the material controls;
- » Establishing a robust monitoring and review process;
- » Establishing clear reporting protocols and accountability for action.

This process will be completed during the year ending 31 March 2022 and the Audit and Assurance Policy for the three years ending 31 March 2025 will have more detail on how financial reporting risk is managed.

## Three lines of defence model – first line of defence

In the first line of defence risks are directly managed by the teams in control of the project, activity, or task.

The acquisition by TfW of the operational responsibility for running, as opposed to overseeing, the Wales and Borders train service has given TfW the opportunity of further enhancing its three lines of defence model. It has meant there is now greater clarity in relation to the first line of defence, where it has been made clear where responsibility for risk and related internal control lies, and a clearer distinction has been made between those individuals responsible for managing risk and those that provide assurance to first line management.

Risk owners are accountable for identifying risks and issues, adding, and maintaining risks on ARM, taking actions to mitigate risks and issues, and employing consistent good business practices to manage existing, emerging and new risks.

## Oversight of risk – the second line of defence

The Head of the Safety and Sustainability Department, as mentioned earlier is effectively the Chief Risk Officer and accordingly, as well as reporting to the Chief Executive, has a reporting line to the Chair of the Audit and Risk Committee.

There is also now clear delineation as far as individuals in the second line of defence are concerned. They provide oversight and independent assurance in relation to activity and internal control in the first line of defence and are not involved directly in the management of risk or the operation of controls.

Reporting to the Safety and Sustainability Director the Assurance Function acts independently to check not just compliance with internal processes, procedures or governance but test the end-to-end risk process including external factors and internal governance and to validate reporting on project management, TfW's major projects, supply chain and key business partners.

This enables assurance to be provided to the Senior Leadership Team, Board, Major Projects Committee and the Audit and Risk Committee.

The Major Projects Committee which started its work in the year ended 31 March 2021 provides an additional level of oversight on some of the risks arising from TfW's larger and most risky projects, such as the Core Valleys Lines transformation. The more well-established Health Safety and Well-being Committee provides oversight over safety, clearly one of TfW's principal risk issues, with operational safety on the railways being the responsibility of a separate, dedicated committee of TfW Rail Limited.

Risk management throughout TfW is supported by the Risk Team which is responsible for managing ARM, helping define and challenge risk and issue definition, scoring, action planning and escalation. The Risk Team publishes monthly reports by Directorate and has risk review meetings and issues a corporate risk report which is presented by the Chief Risk Officer (Safety and Sustainability Director) independently to Board and the Audit and Risk Committee.

The Risk Team is responsible for ensuring that appropriate oversight and governance takes place, helping define the risk or issue, test the scoring and track mitigations or treatment actions. Each month the Risk Team produce a risk report which is presented at a regular risk meeting where significant risks are reviewed; new risks are checked, and future potential risks are considered through horizon scanning.

All significant or corporate risks are escalated and reported through the Senior Leadership Team, the Audit and Risk Committee the TfW Board and where necessary Welsh Government.

### Third line of defence – the Audit and Risk Committee and the internal audit function

The Audit and Risk Committee, in conjunction with the internal audit function activity, is responsible on behalf of the Board in ensuring that risk and internal control system is operating effectively.

At each meeting the Chief Risk Officer reports to the Audit and Risk Committee on risk activity since the last meeting and particularly discusses the status of TfW's principal risks, emerging risks and the second line assurance that has taken place to ensure that the risk and control system is operating effectively. The Audit and Risk Committee provides oversight and challenge during these discussions and regularly requests follow-up actions to be carried out by first line management, the Chief Risk Officer or by the internal audit function.

The Audit and Risk Committee works closely with the Major Projects Committee (the Chair of the Audit and Risk Committee is a member of the Major Projects Committee) in ensuring there is a strong risk perspective in the "deep dives" that the Major Projects Committee carries out on major projects, discussing and challenging the first line managers of these projects and also receiving commentary from the Chief Risk Officer on the perspective of the second line of defence.

The Audit and Risk Committee ensures that the internal audit function's work, which is set out in the next section, is focused on ensuring that risk and internal control is appropriate on a system wide basis, complementing the work done by the first and second lines of defence, identifying any weaknesses and proposing remedial action and ensuring that this is implemented in a timely manner.

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#### Specific matters on which feedback is requested

- » Would respondents like more detailed information on the operation and oversight over the risk and internal control system?
- » Are there other risks which in the view of respondents should be included as Principal Risks in Appendix A?





## TfW's internal audit function

17 Annual Internal Audit Plan

18 Reporting

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## TfW's internal audit function

The internal audit function is governed by an Internal Audit Charter, which has been drafted in accordance with the recommendations of the International Institute of Internal Auditors, amended as appropriate for the guidance provided in March 2017 in applying the recommendations in the UK public sector, and is available on TfW's website here.

## Annual Internal Audit Plan

The Annual Internal Audit Plan is developed from a consideration of the principal risks facing TfW. A cycle of audit testing and management requests, and input from the Audit and Risk Committee, in advance of approving the plan.

The Annual Internal Audit Plan is developed from a consideration of the principal risks facing TfW. A cycle of audit testing and management requests, and input from the Audit and Risk Committee, in advance of approving the plan. The 2021/22 Annual Internal Audit Plan has been developed based on TfW's risk universe, derived by reviewing the risk registers and discussions with relevant risk and executive management to ensure that the entirety of TfW's risks, as far as possible, is captured, which will include, for example, legislative and regulatory change, organisational changes and external factors.

The 2021/22 draft Annual Internal Audit Plan has been approved by the Audit and Risk Committee but remains in draft as a significant amount of work is being currently carried out in assessing the work that will be required on the rail operations which were acquired on 7 February 2021. As there are several organisational changes taking place at this time as well, the plan incorporating work on the rail operations will only be in a position to be implemented in the latter part of the year ending 31 March 2022

Audits in the current areas are included in the draft 2021/22 Annual Internal Audit Plan:

- » Cybersecurity and IT infrastructure resilience.
- » Business continuity.
- » European funding claims.
- » Payroll and expenses.
- » Human Resources systems.
- » Realisation of community benefits
- » Financial systems
- » Transfer of bus grants to TfW from Welsh Government.
- » Transfer of Active Travel grants from Welsh Government.
- » Governance of infrastructure programmes.
- » Risk management processes.
- » Self-Insurance processes.
- » Contract and supplier management
- » Governance across the TfW group

An assessment of culture is embedded into the internal audit process and addressed in each audit.

At the time of approving the draft 2021/22 Annual Internal Audit Plan, the Audit and Risk Committee also considered outline 2022/23 and 2023/24 plans to be satisfied that appropriate coverage on a three-year cycle takes place.

The estimated resources required to deliver the draft plan is some 250 days. Resources will be a mixture of TfW audit staff, resources provided by Welsh Government and specialist resource.

## Reporting

After each audit is completed, a report is produced, awarded a rating, agreed with management and actions and timetables for implementation agreed. Implementation is monitored on a regular basis.

The Head of Internal Audit meets regularly with the Chair of the Audit and Risk Committee, without management present, to discuss any concerns or issues that the Head of Internal Audit might have.

The Head of Internal Audit also liaises closely with the head of the internal audit service of the Welsh Government to ensure that there is a shareholder and public sector perspective on the work being carried out.

At the end of the year the Head of Internal Audit produces a report to the Audit and Risk Committee and the Accounting Officer on the internal audit function's assessment of the effectiveness of the internal control system.

### Specific matters on which feedback is requested

- » Would respondents like more detailed information on the operation of the internal audit function?





## The approach taken to the preparation of the Resilience Statement

22	Introduction	22	Background	23	TfW's Resilience Statement
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## Introduction

Many of the activities that TfW is involved with require a long-term view, such as planning for infrastructure projects, greater integration of Wales' transport system, the regeneration of the Core Valleys Lines, the development of the North East Wales and South Wales Metros, planning for multi-modal transport and achieving a lower-carbon future.

TfW is primarily funded from the public purse by remit grant and other funding for services delivered to Welsh Government. Welsh Government issues TfW with an annual remit letter, which includes the budget allocated to carry out specific activities for that financial year.

The Welsh Government can issue additional remit letters (as well as other direct instructions) as a result of changing circumstances, for example, as it did in relation to the COVID-19 pandemic

This remit grant includes the grant subsidy for rail passenger services for the Wales and Borders Franchise which, prior to 7 February 2021, was administered as pass through revenue to the franchise holder.

## Background

TfW is a not-for-profit organisation and does not have borrowing facilities. As an organisation wholly owned by the Welsh Government, its only source of financing is the Welsh Government and other government-related bodies

The Audit and Risk Committee believes, however, there is value to its shareholder, stakeholders and the public in preparing a Resilience Statement which is designed to assist readers in understanding the financial effect of certain selected scenarios on the funding requirements of TfW.

The Audit and Risk Committee has considered the possibility of designing reverse stress scenarios as suggested in HM Government's White Paper, "Restoring Trust in Audit and Corporate Governance" issued in March 2021. However, in view of TfW's funding arrangements, it does not believe that reverse stress tests are appropriate in TfW's circumstances.

## TfW's Resilience Statement

TfW has prepared a Resilience Statement each year since issuing its Annual Report for the year ended 31 March 2020.

The Resilience Statement involves an assessment over the following time periods:

- » short term resilience - a twelve-month period from the date of approval of the financial statements - the "going concern" assessment;
- » medium term resilience - a period of between two and five years;
- » longer term resilience - a five to 15-year time horizon.

## Short term resilience

Short term resilience has been determined to coincide with the period of the directors' assessment that TfW is a going concern for the purpose of preparing TfW's financial statements, which is the twelve months after the signature of the financial statements and is typically 15 months after the year end.

## Medium term resilience

In its Annual Report for the year ended 31 March 2020 the directors had established two stress scenarios in its consideration of TfW's medium term resilience:

- » an economic stress based on the forecasts issued by the Prudential Regulation Authority;
- » invoking and implementing the "Operator of Last Resort" provisions.

Both of these scenarios became outdated as a result of the COVID-19 pandemic and, in fact, in February 2021 TfW invoked the "Operator of Last Resort" provisions and is now responsible for operating the Wales and Borders train service at least for the medium-term period. Accordingly, no medium-term financial scenarios were included in neither the 2020 nor the 2021 Annual Reports.

At the time of issuing the 2021 Annual Report and this draft Audit and Assurance Policy, there was still considerable uncertainty about what the "normal" post-Covid transport scenario for Wales (and the Borders) would be.

Accordingly, the Audit and Risk Committee does not yet have a clear view of potential scenarios to illustrate TfW's resilience in the 2022 Annual Report, however, it is likely to involve scenarios which:

- » demonstrate the financial sensitivity of TfW's rail (and multi-modal) strategy to changes in transport passengers' behaviour;
- » illustrate the financial sensitivity of potential delays in TfW's capital expenditure and regeneration programme.

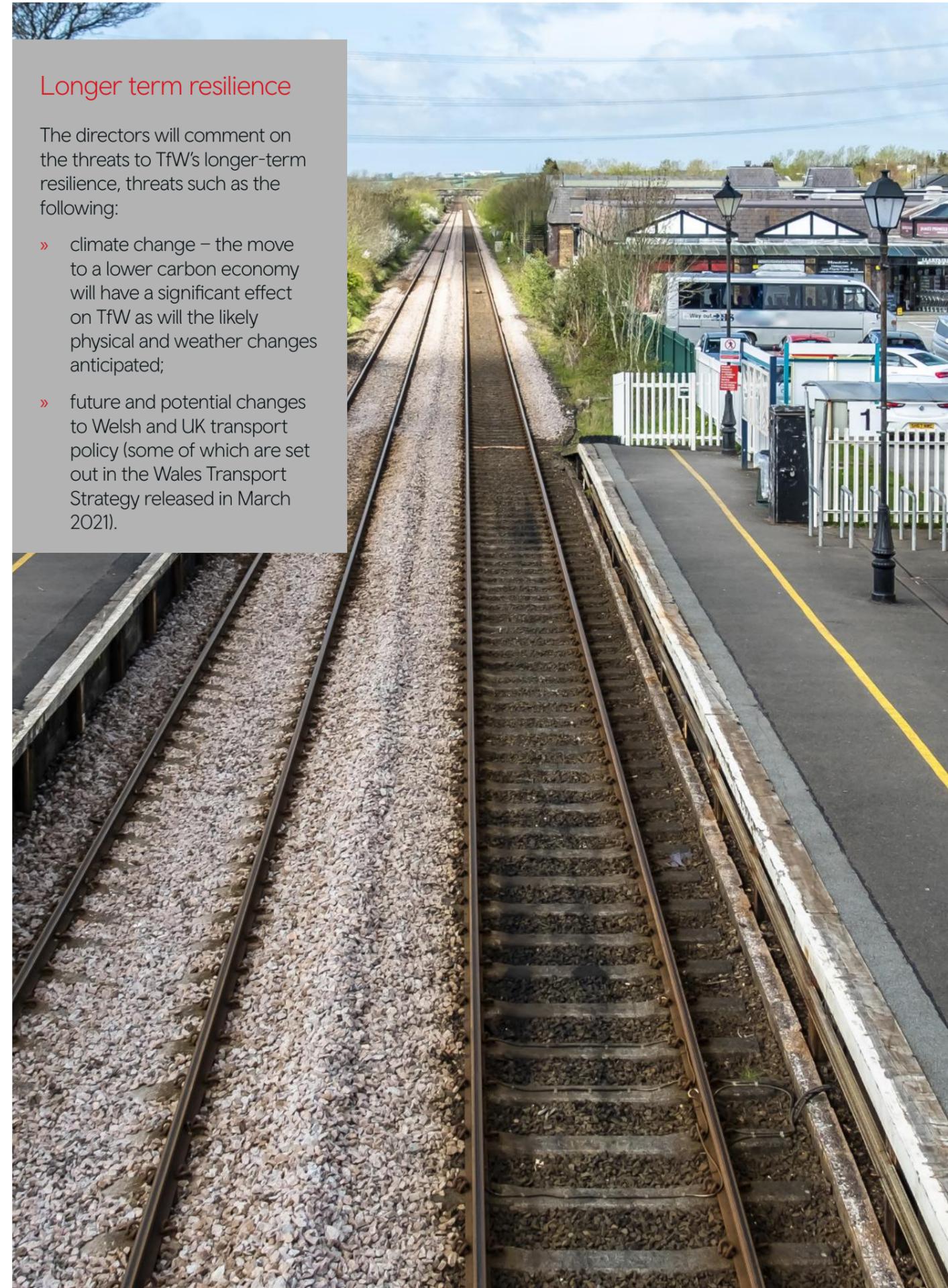
## Specific matters on which feedback is requested

- » Do respondents agree with TfW's Audit and Risk Committee that using reverse stress tests in TfW's Resilience Statement is not appropriate. If not, what reverse stress tests are suggested?
- » Are there additional financial scenarios that the Audit and Risk Committee should consider in order to analyse TfW's medium term resilience?
- » Are there further significant matters that respondents considered in relation to TfW's longer-term resilience?

## Longer term resilience

The directors will comment on the threats to TfW's longer-term resilience, threats such as the following:

- » climate change – the move to a lower carbon economy will have a significant effect on TfW as will the likely physical and weather changes anticipated;
- » future and potential changes to Welsh and UK transport policy (some of which are set out in the Wales Transport Strategy released in March 2021).





## Process for appointing TfW's external auditor

28 Timing of review of audit arrangements

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28 External auditor selection process

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## Timing of review of audit arrangements

TfW has, in the past, planned to carry out a full review of its audit arrangements on a regular basis. The last external auditor selection process took place in 2019.

The substantial change that has taken place within TfW, as a result of the acquisition of the Core Valley Lines in March 2020 and the Wales and the Borders train operations in February 2021 has resulted in the Audit and Risk Committee and the Board determining that the next external auditor selection process should take place during 2022.

A full external auditor selection process including a tender will take place every five years after 2022, unless, for example, a substantial change in TfW's organisation takes place and TfW is required, in accordance with public procurement rules, to carry out a tender for its external audit.

## External auditor selection process

The 2022 external auditor selection process (the first audit will be for the year ending 31 March 2023) will be as follows:

### May 2022

Firms will be invited to tender for the audit through the Crown Commercial Services ("CCS") framework, which has a list of suppliers who have been evaluated as capable of delivering Government's requirements, with standardised contract terms.

### June 2022

The Audit and Risk Committee will determine which firms, based on the response to the CCS framework, and its own knowledge have the capability and the reputation to become TfW's external auditor. The selected firms will be asked to nominate the Senior Statutory Auditor that the firm believes is most suitable for TfW.

The Audit and Risk Committee has determined that the critical success factors to be TfW's external auditor should be:

- » A firm and a Senior Statutory Auditor with a good track record in relation to audit quality.
- » A Senior Statutory Auditor who has appropriate experience and has demonstrated to the Audit Committee their commitment to audit quality.
- » A Senior Statutory Auditor who has appropriate experience and has demonstrated to the Audit Committee their commitment to audit quality.
- » A firm and Senior Statutory Auditor with a genuine commitment to "no surprises" and a consultation process with specialists and risk management which is efficient and effective.
- » The Senior Statutory Auditor is supported by a strong team.
- » An efficient, modern audit (maximising the use of data analytics), with minimal disruption, within agreed deadlines.
- » Experienced in providing public assurance on non-financial information.

## July 2022

The Audit and Risk Committee meets with the prospective Senior Statutory Auditors to assess their experience and commitment to audit quality. If there are issues, the Audit Committee may ask the firm to submit another prospective Senior Statutory Auditor for consideration).

## September 2022

The formal appointment process will commence allowing the participating firms to interact with management and receive a greater insight into TfW's operations. Discussions will take place between the Chair of the Audit and Risk Committee and representatives of each of the participating firms. These discussions will cover the:

- » firm's approach to audit quality;
- » relationship with the audit regulator and results of inspections;
- » approach to actual or perceived conflicts of interest.

## Early October 2022

The firms submit their written proposal to the Audit and Risk Committee to become TfW's external auditor.

## Late October 2022

The firm will make an oral presentation to the Audit and Risk Committee (which will also be attended by key members of financial management). The audit team will be asked to discuss how they would handle specific audit issues. The primary purpose of the oral presentation is for the Audit and Risk Committee to get a better understanding of the strength in depth of the team that will actually carry out the work and how they act as a team.

After the oral presentation the Audit and Risk Committee will recommend an external auditor to the Board and after Board approval, the external auditor will be appointed. Immediately after the decision by the Board, the successful firm will be notified, and all firms will be provided with detailed written feedback and an opportunity for an oral discussion with the Chair of the Audit and Risk Committee.

The appointment of the external auditor will be approved by the shareholder at TfW's next Annual General Meeting.

## Specific matters on which feedback is requested

- » Is five years an appropriate period between formal audit tenders?
- » Are the critical success factors to be TfW's external auditor appropriate and should the Audit and Risk committee consider any other factors?
- » Do respondents have any other comments on the process for appointing TfW's external auditor?



## Consideration of materiality in the preparation of the financial statements

34	Approach to materiality	34	Materiality considerations for the preparation of the financial statements for the year ending 31 March 2022	35	Role of the Audit and Risk Committee
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## Approach to materiality

Management whilst preparing TfW's financial statements considers the impact information could reasonably be expected to have on users of its individual and consolidated financial statements.

Management endeavours to identify information that has the potential to be material i.e. information that if omitted or misstated could influence decisions that users might make in relation to TfW's financial information. Management then assesses the quantitative and qualitative factors it has identified to determine whether the information identified is actually material and organises the information in as clear and concise a way as possible for users of its financial statements.

Management then reviews the draft financial statements to determine whether, in its view, all material information has been identified and materiality considered from a wide perspective, and in aggregate.

## Materiality considerations for the preparation of the financial statements for the year ending 31 March 2022

The consolidated balance sheet of TfW, principally as a result of the acquisition of the Core Valley Lines has assets, which are denominated at depreciated replacement cost, such as earthworks and stations, and hence there is a significant element of subjectivity in the valuation, as they are long-life specialist assets

Accordingly, TfW has a higher level of materiality in determining the carrying value of these assets than other more financially related assets in the balance sheet. These assets, as far as far as management is concerned, have a materiality of £50 million and other assets and liabilities in the balance sheet have a materiality of £2 million.

In relation to the income statement, a lower level of materiality of £250,000 is applied to items other than depreciation on CVL assets where £1 million is applied.

## Role of the Audit and Risk Committee

The Audit and Risk Committee provides oversight of this process by drawing on its knowledge and experience of TfW's transactions, other events and conditions and the business and general environment to identify whether, in its view, all material information has been provided in the financial statements, and with appropriate prominence.



## The scope of the external auditor's work

39	The audit approach	39	Scope of the audit	40	Materiality in the audit
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The scope of the external auditor's work on the various financial statements issued by TfW is set out below:

- » An audit under UK Auditing Standards of the consolidated financial statements of TfW prepared in accordance with International Financial Reporting Standards ("IFRS").
- » An audit under UK Auditing Standards of the standalone financial statements of TfW; Transport for Wales Rail Limited; and any other subsidiaries or associated companies of TfW where an audit is required, in accordance with UK Financial Reporting Standards and/or IFRS, as appropriate.

## The audit approach

The Audit and Risk Committee's expectation is that the external auditor adopts a risk-based approach to the audit, with its primary focus being on the internal controls that TfW management has in place in its control environment to reduce the amount of substantive testing required to obtain appropriate audit evidence to a minimum.

To this end, the Audit and Risk Committee's expectation is also that the external auditor will use data analytics and other similar techniques extensively during the course of its audit. All matters of material significance raised by the external auditors will be described and discussed in the Chair of the Audit and Risk Committee's report, which is included in the Annual Report, as well as in the external auditor's report.

In addition, generally all audit misstatements suggested by the auditors are adjusted before finalising the financial statements.

## Scope of the audit

As part of the planning for each year's audit the Audit and Risk Committee discusses with the external auditor the scope of the audit of the group and the entities that will be subject to full scope audit and those entities and divisions where only principal account balances will be audited. In the last few years 100% of TfW's total assets revenue have been subject to full scope audit.

The Audit and Risk Committee anticipates its external auditor continuing this level of coverage for the period of this Audit and Assurance Policy, assuming there are limited changes in the period to the structure of the TfW group.

## Materiality in the audit

The Audit and Risk Committee also discusses with TfW's external auditor the materiality at which it believes that financial misstatements will reasonably influence users of TfW's financial statements, taken as a whole.

In particular the Audit and Risk Committee and TfW's external auditor discuss and agree the materiality that the external auditor will use for planning the scope of its audit work and in evaluating the results of its work. For the audit of the consolidated financial statements for the year ended 31 March 2021, the Audit and Risk Committee and the external auditor agreed that materiality should be £32 million and a threshold of £1.6 million was set for reporting misstatements uncorrected by management to the Audit and Risk Committee

The auditor and the Audit and Risk Committee have not yet agreed the materiality and the threshold for reporting misstatements for the year ending 31 March 2022, however these are likely to be in the region of £35 million and £2 million respectively.

## Involvement of the external auditor with the Resilience Statement

The "going concern" assessment will be subject to work by the external auditor in accordance with UK auditing standards, as in previous years.

The Audit and Risk Committee does not plan to involve the external auditor in providing assurance on any aspect of the medium or long term resilience of TfW at this stage, although as guidance for reviews of resilience statements by external auditors is developed this will be reconsidered.

## Relationship between the external auditor and the Audit and Risk Committee

Members of the Audit and Risk Committee and the external auditor will have a private meeting prior to each Audit and Risk Committee and afterwards if necessary

The Senior Statutory Auditor will be required to rotate after five years, or in accordance with UK auditing standards if these change. The Audit and Risk Committee will interview prospective replacements before they are appointed.

## Non-financial information

It is possible in future years that the external auditor might be engaged to produce a published assurance report on non-financial information or key performance indicators, requested by the Audit and Risk Committee and the Board, informed by this and future consultations on TfW's Audit and Assurance Policy.

### Specific matters on which feedback is requested

- » Do respondents have any comments on TfW's approach to determining materiality in its financial statements?
- » Do respondents have any comments on the materiality thresholds established by TfW's Audit and Risk Committee?
- » Is the proposed involvement of the external auditor with the Resilience Statement appropriate at this stage.



## The principal sources of assurance received by TfW's Board on information used to monitor business performance

44 Introduction

46 TfW's priorities

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## Introduction

TfW is a relatively new organisation, and its strategy and priorities continue to change from year-to-year.

Accordingly, it is still evolving how and what it measure in relation to the performance of the business. It has established some key performance indicators (“KPIs”) in the context of its priorities, and the issues and risks that it faces. These will continue to evolve. For example, customer experience is currently concentrated on the rail offering, developments in multi-modal travel and end-to-end journey experience will mean that more sophisticated KPIs will be required to be developed in the future to measure business performance in this and other areas.

The Welsh Government, in its annual remit letter, sets out a number of objectives for TfW to achieve in a year. In the main, these set the direction, and the Welsh Government’s preferred approach, for TfW to carry out its work to deliver Welsh Government policy and are built into TfW’s business performance management processes, as appropriate.

Set out in the following table are TfW’s priorities and some of the risks and issues it faces in achieving those priorities, relevant KPIs and the principal sources of assurance that the Board receives.



TfW's priorities	Issue or risk	KPI	Source of assurance for the Board
Create a safe, sustainable, resilient and effective transport network	<b>Operations</b>		
	Safety	TfW or contractor accidents; Customer, passenger or member of the public accidents	The first item on the TfW Board and the TfW Rail Board is a presentation on safety by the responsible individual. The presentation includes commentary on safety performance compared with historical and industry experience. Board members have the opportunity to challenge the information presented. More detailed information is presented regularly and challenged at the Health, Safety and Well-being Committee.
	Cost efficiency and carbon and nitrous oxide efficiency	Cost per passenger kilometre; Carbon Dioxide equivalent emissions (CO2e) per passenger kilometre; Nitrous oxide emissions per passenger kilometre	This information is presented at each TfW Rail Board with trends and industry comparisons, enabling Board members to challenge the information presented. Summarised information is presented at each TfW Board.
	Resilience	Total cancellations across the network percentage; Skipped stops percentage Passenger time lost (Core Valleys Lines and Wales and the Borders); On-time percentage (stations arrived within three minutes of scheduled time); Short formations (services operating below timetable capacity)	These KPIs are presented at each TfW Rail Board with trends and industry comparisons (where available), enabling Board members to challenge the information presented. Summarised information is presented at each TfW Board.
	Effectiveness	Total passengers carried; Passenger revenue; Passenger kilometres;	This information is presented at each TfW Rail Board with trends, enabling Board members to challenge the information presented. Summarised information is presented at each TfW Board.

	Regeneration		
	Core Valleys Lines regeneration and South East Wales Metro	Meeting timetable; Meeting budget; Securing maximum ERDF funding	Information on the Core Valleys Lines regeneration and South East Wales metro is provided to each Board, enabling Board members to challenge the information presented. It is scrutinised in greater depth at the Major Projects and Change Committee.
	North East Wales metro	Meeting timetable; Meeting budget	Information is reviewed at Major Projects and Change Committee and will be presented regularly at the Board when the plans for the North East Wales metro are further advanced.
	Upgrade of rolling stock	Meeting timetable; Meeting budget	Information on the status of the upgrade of rolling stock is provided at every Board meeting by the Chief Executive.
Develop a continuously improving experience - placing the customer at the heart of what we do	Customer experience	Customer satisfaction; Service quality (stations); Service quality (trains)	This information is presented at each TfW Rail Board with trends, enabling Board members to challenge the information presented. Summarised information is presented at each TfW Board.
Deliver trusted expert advice through leading, innovating and collaborating	Quality advice	A suite of KPI's is in an advanced stage of development covering both the customer and the advisory supply chain, addressing efficiency, effectiveness and the realisation of the benefits of the advice provided.	It is planned that later in the year this information will be presented to the TfW Board.
Build an organisation and partnerships capable of delivering our purpose	Organisation effectiveness	Brand perception; Board effectiveness; Employee engagement surveys; Stakeholder engagement.	This information is presented regularly to the TfW Board and can be challenged by members of the Board.

### Specific matters on which feedback is requested

» Do respondents consider that there are business performance issues and KPIs, which should be a greater priority for TfW, if so, what are they?

» Is there sufficient information provided to enable an appropriate insight into the way that the TfW Board oversees TfW's business performance?



## The Audit and Risk Committee's plans for obtaining assurance on information used to monitor business performance

As commented in the previous section, the KPIs for measuring TfW's business performance metrics are still evolving.

A number of the KPIs, for example: total passengers carried; and Carbon Dioxide equivalent emissions (CO<sub>2</sub>e) per passenger kilometre are produced on a UK basis, albeit based on information provided by TfW and hence are subject to analysis and review externally. Other KPIs such as passenger revenue will be included in the financial statements and hence will be covered by the audit of the financial statements carried out by the external auditor.

The Audit and Risk Committee's view is that it is too early to have any of the KPIs subject to external assurance until they are more fully developed, have matured through regular review by the TfW Board, and the TfW Board has determined they are the most appropriate KPIs for measuring TfW's business performance. Accordingly, the Audit and Risk Committee does not plan to have any KPIs be the subject of external assurance in the year ending 31 March 2022. By the year ending 31 March 2023, it may be more appropriate, and there will be an opportunity for the shareholder and stakeholders to provide input during the next consultation on TfW's Audit and Assurance Policy.

### Specific matters on which feedback is requested

- » Do respondents agree that it is too early for any of the key performance indicators to be subject to external insurance?
- » Which KPIs would respondents consider to be the most important and hence most likely to be subject to external assurance?



## The TfW group budget for external audit and assurance

TfW's Board has allocated a budget of £200,000 to the Audit and Risk Committee to carry out audit and assurance work in the year ending 31 March 2022, the first year of the three-year Audit and Assurance Policy.

Any non-audit fees provided by the external auditor are approved by the Audit and Risk Committee in accordance with TfW's non-audit services policy, which was approved by the Board on 10 June 2019



## Future updates and feedback

This Audit and Assurance Policy will be updated annually, and a revised plan for the following three years issued every September, which will reflect feedback received from the shareholder and stakeholders and the plans of the Audit and Risk Committee in relation to audit and assurance.

The Audit and Risk Committee regards its Audit and Assurance Policy as a “live document” and it encourages stakeholders to provide any feedback, outside of the time allocated for consultation, to TfW’s Communications Department at [xxxx@tfw.wales](mailto:xxxx@tfw.wales) which will forward it to the Audit and Risk Committee.



Principal risks  
appendix A

Risk Name	Risk Description	Mitigating Action	Progress	Speed at which risk could impact
<p><b>COVID Recovery</b> Impact of Coronavirus and the return of passengers to public transport.</p>	<p>There is a risk that public perception of public transport is that there is a higher risk of catching and/or transmitting COVID and other viruses by using public transport.</p>	<ul style="list-style-type: none"> <li>✓ Cleaning regimes with visible in-flight cleaning.</li> <li>✓ Communication strategy to give confidence.</li> <li>✓ Working with industry partners on messaging.</li> <li>✓ Industry research and joint health and safety practices.</li> </ul>	<p>TfW has received positive customer feedback on the level of cleanliness, and this will continue. It is likely that the frequency will change as the risks reduce further from contact transmission.</p> <p>TfW will continue to encourage the use of public transport to reduce negative impacts on road infrastructure, improve decarbonisation and increase accessibility for the people of Wales and Borders.</p> <p>TfW work with Industry bodies such as Rail Delivery Group (RDG) to share approaches to encouraging customers to return to Public Transport.</p>	<p>Less than one year</p>
<p><b>COVID Legacy</b> Longer term negative impacts from Coronavirus on the business</p>	<p>Risks that are latent may be realised impacting the business including, for example, long COVID and the effects of healthcare being diverted during the pandemic.</p>	<ul style="list-style-type: none"> <li>✓ Occupational health arrangements and wellbeing initiatives.</li> <li>✓ Close working with our teams and our positive culture.</li> <li>✓ TfW's bespoke Employee Assistance Programme (EAP).</li> </ul>	<p>TfW has an established EAP that is accessible to all employees. This service gives advice and guidance on health and other matters, including wellbeing.</p> <p>Each year TfW completes a wellbeing survey and this year we will be able to understand the impacts from staff of working through the pandemic, working at home and be in a position to implement further support programmes.</p> <p>TfW has a strong health and wellbeing culture and will continue to work through health and wellbeing programmes and manage trends and actions through the Board's Health Safety and Wellbeing Committee.</p>	<p>Less than three months</p>

Risk Name	Risk Description	Mitigating Action	Progress	Speed at which risk could impact
<b>Major Projects</b> Delivery of major projects including Metro, Core Valley Lines and new rolling stock	Risks associated with major projects resulting in delay or not realising project' objectives.	<ul style="list-style-type: none"> <li>✓ Good project management principles deployed throughout project lifecycle</li> <li>✓ Three lines of defence assurance and governance.</li> <li>✓ Regular reviews of Key Performance Indicators and risk Management.</li> <li>✓ Strong procurement processes</li> </ul>	<p>The impact of COVID on TfW, its business partners and the supply chain has had an impact. Projects have been re-baselined to manage this impact and re-mapped to meet objectives.</p> <p>There is a robust level of governance and reporting at key project stages to ensure risks are identified early and mitigation measures implemented appropriately.</p>	Less than one year
<b>TfW Optimisation</b> Failure to develop in order to meet policy requirements.	Risk that TfW fails to adequately to develop in order to meet the policy objectives and needs of Welsh Government	<ul style="list-style-type: none"> <li>✓ The Senior Leadership Team maintains responsibility for the growth and the capability of the organisation.</li> <li>✓ Regular reviews take place on the organisational design to ensure adequate resourcing.</li> <li>✓ Collaboration is ongoing to ensure that clarity of Welsh Government needs is obtained early, so that resources can be identified and allocated.</li> </ul>	<p>Regular dialogue has been held with Welsh Government to understand future needs and requirements, with regular discussion at senior team level around meeting these requirements.</p> <p>The Transport for Wales board continues to hold regular discussion with the Chief Executive on development and its related challenges to ensure the appropriate deployment of resource.</p>	Less than one year
<b>Integrated Transport Strategy</b> Engagement in public transport	Risk that key partners, including regulatory authorities and industry, fail to engage with TfW on key transport development initiatives.	<ul style="list-style-type: none"> <li>✓ Regulatory authority relationships are maintained across the organisation at multiple levels in order to ensure maintained engagement.</li> <li>✓ Industry relationships are maintained within the bus remit by the bus team and through the rail operations and services teams for rail.</li> </ul>	<p>The senior leadership team routinely manages relationships with a series of key stakeholders in authority and industry.</p> <p>This is particularly the case in the case of bus operations, where significant time investment has been made to develop engagement.</p>	Less than three months



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