



TRANSPORT FOR THE NORTH

Treasury Management Framework

FINAL

Internal audit report: 3.19/20

31 July 2019



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Distribution	Iain Craven, Finance Director

1 EXECUTIVE SUMMARY

1.1 Background

As part of the approved internal audit plan for 2018/19, an audit of Transport for the North's (TfN's) Treasury Management function was undertaken to provide assurance that there are adequate arrangements in place to manage its treasury management and cash flow monitoring function.

The day-to-day treasury management function is undertaken by the Finance Director and the Financial Controller, with the TfN Board responsible for maintaining oversight. TfN uses Link Asset Services as its external treasury management advisors.

Under the Chartered Institute of Public Finance and Accountancy (CIPFA) code, TfN is required to adopt an annual Treasury Management Strategy. The 2019/20 Treasury Management Strategy was approved by the Board at its meeting on 7 February 2018. Below are figures detailed in the Strategy:

Capital Expenditure

The tables below summarises TfN's capital expenditure plans and how these plans are being financed by capital or revenue resources.

Capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	£0	£12.30m	£33.00m	£45.05m	£21.83m

Core funds and expected investment balances

TfN's cash balances are largely determined by its reserve strategy and working capital fluctuations. TfN is funded on a needs basis, so only draws upon grants it requires to meet its expenditure plans. It does, however, hold cash in reserve to guard against financial fluctuations. In the table below working capital is assumed at £0m on a prudent basis, though it is likely that cash owed to creditors will be held from one accounting period to the next:

Year End Resources £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances / reserves	£0	£4.1m	£3.03m	£2.76m	£2.35m
Total core funds	£0	£4.1m	£3.03m	£2.76m	£2.35m
Working capital*	£0	£0	£0	£0	£0
Expected investments	£0	£4.1m	£3.03m	£2.76m	£2.35m

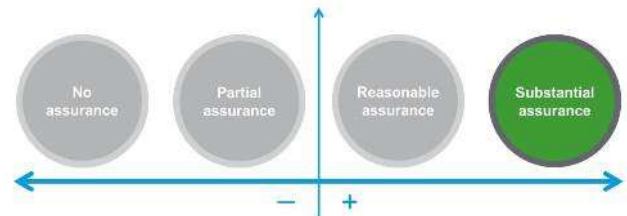
TfN cannot access external credit, whether this be in the form of bank overdrafts to manage short-term cash-flow fluctuations or capital loans to support long-term investment aspirations. Without access to revenue raising powers, TfN is reliant upon a grant received from the Department for Transport to resource its activity. This grant comes in the form of an annual 'core' grant over which TfN has discretion, and discreet grants for programme and development activity. The latter grants require pre-approval from the Department for Transport and are paid to TfN as required.

1.2 Conclusion

Through our review, we found that TfN compares to others in terms of the treasury management framework in place, and as a result, we have not raised any management actions for improvement. As such, a substantial assurance opinion has been given.

Internal audit opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



1.3 Key findings

The key findings from this review are as follows:

Strategy and Policy

As detailed above, the 2019/20 Treasury Management Strategy was approved by the Board at its meeting on 7 February 2018. The parameters within which the strategy is developed are informed by operational practicalities and statutory obligations. The Strategy details TfN's approach to both Capital issues and Treasury Management issues. The Strategy is produced in line with Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

TfN has a Treasury Management Policy in place which details the Treasury Management Statement and its practices. The content of the Policy follows the recommendations contained in Sections 6 and 7 of the CIPFA Treasury Management Code. Through discussions with the Financial Controller, we were informed that the Policy was adopted in April 2018 and minor revisions made in April 2019. TfN does not report to Audit and Governance Committee on individual operational policies and practices, however, we did confirm that documented Financial Procedures are incorporated within the TfN Constitution, which was approved by the Board in April 2018. The Financial Procedures include references to treasury management activities and are accessible to staff via the TfN intranet.

Cash Flow Forecasting

Cash flow projections are prepared annually and updated monthly and daily. The annual and monthly cash flow projections are prepared according to known changes in levels of income and expenditure and also changes in payment and receipt dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. We were informed that the cash flow forecast is prepared by utilising the latest budget forecasts which are prepared by members of the Finance team. The overall forecast is then prepared by the Financial Controller and discussed with the Finance Director in a monthly meeting.

Approval, monitoring and reporting arrangements in relation to cash flow, borrowings and investments

Through discussions with the Financial Controller, we were informed that there had been one investment during the 2019/20 fiscal year. As per the Treasury Management Strategy, Policy and Practice, for the one investment, we confirmed that:

- The investment was made to an institution on the Approved List of Counterparties (BNP Paribas Insticash). The investment was a money market fund and had the minimum credit criteria of AAA;
- A Cash Management Decision Template form had been pre-approved by two authorised approvers, with documentation reviewed in advance by a third officer. The form had been prepared by a member of the Finance team and approved by both the Financial Controller and the Financial Director;
- On the Institutional Cash Distributors (ICD) money market portal, the transaction had been entered by an approved trader and an authorised individual had approved the transaction. The transaction had been entered by a member of the Finance team and approved by the Financial Controller;

- The bank transaction had been approved by two authorised approvers, with the bank transaction being entered by a third officer. The transaction had been entered by a member of the Finance team and approved by the Financial Controller and the Financial Director; and
- The banking journal had been approved by an officer different to who entered the journal. The journal was entered by a member of the Finance team and approved by the Financial Controller.

Bank reconciliations must be approved by the Finance Director (or Financial Controller in his/her absence) and be prepared by a second officer. There are also reviewed alongside the investment and income tracker. For a sample of five weeks in the 2019/20 Financial Year, we confirmed that the corresponding bank reconciliations had been approved by the Finance Director and prepared by a second officer, in a timely manner. We also confirmed that they were reviewed alongside the investment and income tracker.

The bank mandates in operation for Barclays bank are in date and have been approved and signed on behalf of the Finance Director.

Reporting

TfN review their treasury management activities and strategy on at least a six-monthly basis. A mid-year Treasury Management Strategy report is presented to the Transport for the North Board, by the Finance Director, as part of the 'TfN Budget Revision 2. We obtained a copy of the 'TfN Budget Revision 2 and Year-to-Date Monitoring' Report and confirm that it was presented to the TfN Board in December 2018. The Report details the financial position after the first six months of the financial year. Taking account of that position, and updated forecasts for the remaining six months of the financial year, the report also presents a revised budget for consideration. We also confirmed that the report included an Appendix which detailed the Mid-Year Treasury Management Statement. The Mid-Year Treasury Management Statement sets out TfN's compliance with the Treasury Management Strategy adopted in April 2018. The statement highlighted the cash balances held by TfN over the first six months of the year, and how those have secured in alignment with the adopted cash-management strategy.

A year-end performance report is presented to the TfN Board as part of the year-end outrun report. We obtained the year-end performance report that was presented to the TfN Board in June 2019. We confirmed that the report included TfN's position on cash and cash equivalents. We were informed by the Financial Controller that there had been no non-compliance with Prudential limits or other treasury management limits in the 2018/19 financial year.

APPENDIX A: SCOPE

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objectives of the area under review

To ensure that Transport for the North has adequate arrangements in place to manage its treasury management and cash flow monitoring function. To ensure that cash balances are maximised.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

- Policies and procedures in relation to treasury management and cash flow to ensure that these are sufficiently detailed for staff reference purposes, are up to date and are accessible to all relevant staff. We will also consider how TfN's treasury management strategy is aligned to its overall strategic plan.
- Cash flow forecasting, including arrangements for updating this.
- Approval, monitoring and reporting arrangements in relation to cash flow, borrowings and investments, to ensure that this takes place on an on-going basis to senior management and the Board.
- Bank mandates, to ensure that these are in place and that they specify financial limits and delegated signatories, including responsibilities for the authorisation of all borrowings and investments.

Limitations to the scope of the audit assignment:

- We will perform testing a sample basis from transactions in the current financial year.
- Our review will consider the control framework in place; however, we will not provide any assurance on the appropriateness of decisions or assumptions made or action taken in respect of individual cases.
- We will not form an opinion on the accuracy of the cash flow information.
- We will not provide an opinion on the appropriateness or security of TfN's investments or banking deposits, or of the appropriateness of its investment policies.
- The review will not provide a view on the investments made, or assurance that the value of interest received on the investment has been calculated correctly.
- Our review will not consider the receipting or record of cash including cheques received.
- Our audit does not seek to replicate advice provided by your investment advisor.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Gareth Sutton, Financial Controller

Documentation reviewed during the audit:

- TfN Constitution
- Treasury Management Strategy 2019/20
- TfN Board Minutes
- Treasury Management Policy and Practices
- Monthly Cash Flow Forecasts
- Weekly Bank Reconciliations
- Bank Mandate

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	62.07%	✓
Reasonable assurance	37.93%	-
Partial assurance	0%	-
No assurance	0%	-
Management actions	Average number in similar audits	Number in this audit
	2.79	0

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