



TRANSPORT FOR THE NORTH

Income and Debtor Management

Internal audit report 8.20/21

Final

9 February 2021

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1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by management, we have been able to complete the work in line with the agreed scope

Why we completed this audit

TfN's budgeted expenditure for 2020/21 is fully funded from grants, local contributions, contracted income, and reserves. The main elements of TfN funding are dependent on the Department for Transport's (DfT) approval to release funds. Funding allocations are confirmed by DfT on an annual or multi-annual basis and TfN submits drawdown requests for the different grant allocations throughout the year, as required.

The following funding information relating to the 2020/21 budget was provided in the TfN budget and Monthly Operating report for December 2020:

	Planned Funding (£m)	Q2 Budget Revision (£m)	Funding Received to Date (£m)	Funding Forecast Outturn (£m)
Core Grant	10.00	10.00	5.13	8.28
Integrated and Smart Travel (IST) Grant	15.78	14.99	7.28	9.81
Transport Development Funding Grant	59.00	50.50	27.23	43.21
Rail Operation Grants and Contributions	1.88	1.58	1.20	1.57
Total In Year Grants	86.66	77.07	40.84	62.87

Of the £77.07m funding identified in the quarter two budget revision, £75.49m relates to funding received from DfT and £1.58m relates to rail operation grants and contributions from local partners, for which sales invoices are raised.

The TfN budget forecast is revised on a quarterly basis. The narrative contained within the December Operating report stated that 'a final budget revision exercise was carried out in December to be approved by TfN Board in January. However, this was rendered out of date by the DfT Funding Letter received on 4 January 2021 which reduced in year Core funding by £3m and significantly changed the context of TfN's financial planning for the remainder of the financial year.'

We have undertaken a review of TfN's income and debtor management processes to provide assurance on the existence of a control framework and assess whether controls are operating as intended.

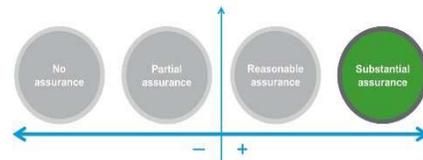
Conclusion

Through our work, we were able to confirm that TfN has an established framework in place in relation to income and debtor management, which includes the recording and monitoring of grant funding and income received from sales invoices, as well as the reporting of financial information to the TfN Board and Audit and Governance Committee.

In addition, through our sample testing we confirmed that controls were operating as intended for all areas reviewed. However, we identified one developmental area where controls could be strengthened in relation to establishing regular review of the Grant Acceptance and Management Policy. This has not impacted the positive opinion provided below.

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 this area are suitably designed, consistently applied and operating effectively.



Key findings

We identified the following findings during our review:



The TfN Constitution provides details on responsibilities in relation to income and debtor management. This is supported by documented accounts receivables procedure notes accessible to relevant members of staff.



An established review cycle for the Grant Acceptance and Management Policy is not in place to ensure that the Policy is regularly updated to reflect current practices in operation.



The Finance Director, in consultation with appropriate TfN officers, prepares annual estimates of income to identify the expected level of income / funding for the year. We confirmed that the 2020/21 budget was approved by the Board in March 2020 and quarterly budget revisions, including amendments to expected income, have been reported to the Board during 2020/21.



From our testing carried out in relation to grant funding received in 2020/21 we confirmed that grant funding determination letters were in place for all grant funding received. Whilst we identified two instances where the funding received by TfN differed from the value stated on the initial grant funding letter from DfT we were informed by management that funding allocations and payment schedules are subject to changes by DfT throughout the year and therefore, the actual amount received can differ from the original funding letter.



From our sample testing carried out in relation to sales invoices raised in 2020/21 for contribution from local partners, we confirmed that all sales invoices reviewed had been approved via an invoice request form. We noted that in each case the form did not record the date of approval on the form. However, in all cases we were able to determine the date that the form was submitted for processing following approval to confirm that invoice had been approved and processed in a timely manner. Therefore, we have not raised a management action at this time.



Management undertake month end balance sheet reconciliations to track funding that has been received throughout the year. The reconciliation spreadsheet, along with the funding contribution trackers enables management to monitor whether all expected income has been requested and received. Due to the nature of TfN's income (funded by government grant funding and invoicing of local partners), we were informed by management that long standing debts and write off of bad debts do not occur. This was verified through our review of the TfN 2019/20 audited accounts. Therefore, no further debtor management processes are required such as escalation of debt to external agencies which other organisations will use.



We confirmed that for 2020/21, reporting on expenditure against funding is provided in monthly operating reports and finance updates presented at TfN Board and Audit and Governance Committee meetings.

Additional findings

As part of our review, we conducted benchmarking to compare the TfN's income and debtor management processes with those we have seen in place at other organisations, to identify areas of good practice.

We identified the following good practice that the TfN is displaying:

- Quarterly budget revisions are made as part of the TfN budgetary control procedures; and
- Expected funding income from TfN partner organisations is tracked through additional monitoring spreadsheets to ensure expected sales invoices are raised.

We identified the following good practice within our (grant funded) client base that the TfN may wish to consider:

- We were informed by management that the monthly control account reconciliations are completed by the Financial Accountant and do not require further approval. Whilst we recognise that this is in line with the processes we have seen in place at TfN during previous year reviews. Due to the size and structure of the Finance Team, management may wish to consider formally documenting the approval of monthly control account reconciliations to demonstrate clear segregation of duties.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Policies and Procedures				
Control	A Grant Acceptance and Management Policy is in place to provide staff with guidance on how TfN determines whether to accept grants, and how those grants will be managed. The Policy is accessible to all staff via the TfN SharePoint site.	Assessment:		
		Design	✓	
		Compliance		Partial
Findings / Implications	<p>Through our review we identified that the Grant Acceptance and Management Policy was last reviewed and updated in April 2018. We were informed by management that the Policy is amended if changes are made to processes, but the Policy is not subject to a set periodic review. In addition, we noted that the Policy does not contain a version control section to ensure that amendments made to the Policy following review, date of the last review and relevant Committee approval, are clearly documented (including instances where the Policy has been reviewed but no changes were required).</p> <p>The absence of a formal periodic review and version control section may result in the Policy reflecting outdated processes, which leads to the application of incorrect procedures by staff.</p>			
Management Action 1	Management will establish a timeframe for the periodic review of the Grant Acceptance and Management Policy and ensure that reviews are carried out in line with the agreed timeframe. In addition, a version control section will be added to the Policy to capture changes made to the Policy following review, date of review dates and relevant approval at oversight Committee.	Responsible Owner:	Date:	Priority:
		Paul Kelly, Financial Controller	30 June 2021	Low

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
	Low	Medium	High	Low	Medium	High	
Policies, Procedures and Planning	0	(3)	1	(3)	1	0	0
Income and Debt Management	0	(5)	0	(5)	0	0	0
Reporting	0	(1)	0	(1)	0	0	0
Total	1	0	0	0	1	0	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: BENCHMARKING

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 across our client base.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	36.7%	✓
Reasonable assurance	43.1%	
Partial assurance	18.9%	
No assurance	1.3%	

Management actions	Average number in similar audits	Number in this audit
	4	1

Our benchmarking data above shows that the level of assurance achieved by TfN is above average where we have provided in the main, a reasonable level of assurance. In addition to this, on average we have made four management actions when undertaking similar reviews whereas one action has been made as part of this review.

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal audit assignment has been scoped to provide assurance on how Transport for the North manages the following area:

Objective of the area under review

To ensure the existence of a robust control framework for the management of debtors and the recovery of income, ensuring turnover is maximised and cashflow levels are managed appropriately.

The audit will consider the following;

- Financial Regulations, including responsibilities for income and debtor management.
- Policies and documented procedures for income and debtor management.
- Financial planning and budgeting process to identify the expected level of income / funding for the year.
- Processes for raising timely sales invoices and recording of funding.
- Debtor management including deadlines for issuing reminders.
- Aged debt reporting.
- Escalation procedures for long-standing debt, including to external agencies.
- Authorisation for write offs of irrecoverable debt.
- Reporting on income (including monitoring of funding conditions) and debtors to relevant Committees and Board.

Limitations to the scope of the audit assignment:

- Our audit is limited to reviewing the areas specified above. No other areas of the TfN's financial system or processes will be reviewed.
- Testing will be undertaken on a sample basis.
- Our work will not confirm that customer credit terms are suitable, only that they have been agreed.
- We cannot confirm that all income due to TfN has been received.

- We will not comment on whether debts are irrecoverable, or should be written off.
- We will not review the debt collection processes employed by external agencies or partners.
- The results of our work are reliant on the quality and completeness of the information provided to us; and
- Our work does not provide any guarantee against errors, loss or fraud or provided an assurance that error, loss or fraud does not exist.

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