



TRANSPORT FOR THE NORTH

New Payment (Commissioning) Process

Internal audit report 6.20/21

Final

5 February 2021

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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 you, we have been able to sample test, or complete full population testing using data analytics tools.

Why we completed this audit

We have undertaken a review of the Transport for North's ('TfN') new commissioning process and revised control framework as part of the agreed 2020/21 internal audit plan.

During July 2020 electronic workflows to approve the commissioning of purchases at TfN went 'live' within the Dynamic365 system which was already in operation. Prior to the implementation of electronic workflows, approval for the commissioning of purchases was obtained through paper authorisation that were physically signed and retained in the Finance Department's workspace. TfN now consider it mandatory for the commissioning of purchases to be approved electronically and paper-based forms are no longer accepted for processing as stipulated within the Procurement Policy and supporting guidance.

The electronic system has been designed internally to ensure that the approval for the commissioning of purchases, from when the requisition is raised prior to the payment being fulfilled, is captured for each requisition in one central location. Furthermore, storage of evidence in relation to each payment is also held electronically in one central drive that is accessed by the Finance Department. Post-implementation reviews of the updated commissioning system has been undertaken by TfN management since the system went live in July 2020 and management consider the system to be operating as intended.

As part of our review, we have assessed the revised control framework in place for the commissioning of purchase orders to ascertain specifically whether requisitions have been authorised accordingly, evidence has been stored centrally, and authorisation levels in accordance with the Scheme of Delegation correspond with the commissioning of purchase orders.

Conclusion

Through the work performed, we confirmed that TfN has an established framework in place in relation to authorising the commissioning of purchases orders and utilisation of the Dynamics365 system for approvals, which includes a requirement for requisitions to be authorised in line with the Scheme of Delegation. The framework is supported by overarching Financial Regulations, policies and process maps that take the form of rules and guidance for undertaking the commissioning process and these documents are accessed via TfN's intranet.

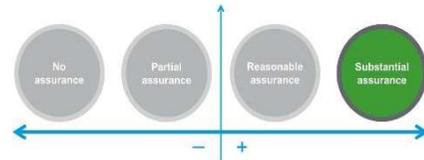
Our sample testing of approval levels for commissioning of purchase orders confirmed that the approval levels in Dynamics365 for a sample of requisitions was in line with the Scheme of Delegation, and that the storage of evidence (invoices, goods received notes by way of example) were in the form of shared folders that can only be accessed by the Finance Department.

In light of our findings above, including our additional key findings below, we have not made any management actions.

We have also undertaken data analytics testing using data from the quarter two 2020/21 Transparency (expenditure) report to identify potential duplicate payments made during 2020/21. The conclusion of our analysis does not require any further investigation from management. Full details are provided at Appendix A of this report.

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



TfN has in place a Payment Policy, a Procurement Policy and process maps that make reference to the new commissioning process, in addition to outlining the roles and responsibilities of the members of staff that are required to contribute to the day-to-day processes of purchase orders.



Financial Regulations and a Scheme of Delegation matrix outlines the approval levels for commissioning purchase orders with defined different values. As part of the implementation of the Dynamics365 system, the approval levels were uploaded into the system by the IT Department with oversight from the Financial Accountant. We obtained a report from the Dynamics365 system that confirmed that approval levels are aligned to the Scheme of Delegation.



We undertook testing on a sample of requisitions raised in Dynamics365 system since the new commissioning process went live in July 2020. The purpose was to confirm whether the requisition was approved in line with the Scheme of Delegation, whether the system recorded the approval process, and whether evidence of the commission payment was stored in the form of 'payment packs' in the shared folders (Note - our testing covered

all but one range (£181,302 to £1,000,000). This was because we could not find values between these two ranges in our period considered). Our sample testing did not identify any exceptions.



Testing on a sample of treasury payments, relating to one-off payments to suppliers, which are made outside of the system was also undertaken. A 'Treasury Payments Template' form is required to be completed by the budget holder and then reviewed and authorised by the Procurement Officer and Financial Controller. Each of our sample of two treasury payments were supported with checks on supplier/contractor bank details, attached invoices and confirmation of payments (bank transaction extract), which was in line with the Procurement Policy.



For a sample of budget holders, we confirmed that budget holder reports are available on file for three months (July, August and September 2020). Through review of each budget holder report, we confirmed that each report included a 'Commissions' sheet that showed the status of each commission payment requested by the budget holder. Commentary following the budget holder meetings was also recorded to evidence the discussions between the Budget Holder and a representative from the Finance Department.



Through a review of the reporting framework we confirmed that TfN has published Transparency (expenditure) reports on a quarterly basis via the website, which is publicly accessible, to comply with the Local Government Transparency Code issued by the Department for Communities and Local Government (February 2015). Further to this, the TfN Board also receives financial updates by the Finance Director on a routine basis throughout the financial year to inform Trustees on year-to-date expenditure, budgets and other financial information.

Additional areas of good practice for consideration

We have identified the following area that management may wish to take into consideration to further develop processes:

We noted that when amendments to the access levels within Dynamics365 are required, in the event of a member of new starters, changes to existing staff roles or staff leaving TfN, an Access Request form is required to be submitted and approved by the Financial Controller prior to the IT Team carrying out the amendment. Whilst we acknowledge that the commissioning module of the system is new and there has not been any need to make user access level amendments at the time of our review, TfN may wish to consider carrying out a regular (e.g. quarterly / annual) review of access levels within the Dynamics365 system. This will support the controls already in place in regard to system access and enable instances of inappropriate access rights to be identified and amended on a regular basis.

APPENDIX A: DATA ANALYTICS

The following is a summary of findings from our analytical work as agreed within the Scope.

Area: Duplicate payments made to suppliers / contractors	
Criteria:	Identify possible duplicate payments made to suppliers contractors from the Transparency Reports.
Source Data/Reports:	<ul style="list-style-type: none">• Transparency (expenditure) reports published by TfN containing individual expenditure transactions over £500.
Period Covered:	1 July – 30 September 2020
Testing Undertaken:	<p>We undertook a duplicate test on the following criteria across all of the months considered:</p> <ul style="list-style-type: none">• Payment date;• Payment source;• Supplier name;• Amount; and• Expenditure type.
Results:	<p>Our analytics concluded that out of 273 entries within the Transparency (expenditure) report, 79 (28.9%) entries related to potential duplicate payments. Following this, we provided our results to the Financial Accountant for comment, and it was identified that each payment referred to separate invoices and were in fact not duplicates. In all cases, the Financial Accountant informed us that they related to weekly agency worker invoices, monthly rental (Bruntwood) and monthly licence costs (Trapeze), where invoices for two separate months have been settled simultaneously.</p> <p>As such, for all 79 potential duplicate payments we obtained screenshots of the system and confirmed that each entry from our results could be traced back to different invoices.</p>
Issues Identified:	No issues identified.
Overall Conclusion:	No issues identified.
Output Report Reference:	N/A

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	15%	✓
Reasonable assurance	62%	
Partial assurance	15%	
No assurance	8%	

Management actions	Average number in similar audits	Number in this audit
	3	0

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 three management actions when undertaking similar reviews whereas no actions have been made as part of this review.

APPENDIX C: 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		
	0	(2)	0	(2)	Low	Medium	High
Policy and procedure framework	0	(2)	0	(2)	0	0	0
Payment authorisation levels	0	(2)	0	(2)	0	0	0
Sample testing	0	(3)	0	(3)	0	0	0
Monitoring and reporting framework	0	(3)	0	(3)	0	0	0
Data analytics	0	(1)	0	(1)	0	0	0
Total					0	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 D: SCOPE

Scope of the review

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

Objective of the area under review

To assess the controls in place that support the commissioning of purchase orders for payments made to external parties following the changes made to the related workflows.

The audit will consider the following;

- Financial Regulations, policies and documented procedures for the commissioning of purchase orders and processing of payments to external parties;
- Purchase order and payment authorisation levels, including consideration of the way in which authorisation levels are agreed/approved and communicated to staff across TfN (this will include consideration of the inputting of authorisation levels workflows to the electronic commissioning system);
- We will test a sample of payments made to external parties during the current financial year to determine whether the commissioning of purchase orders has been approved prior to being completed in accordance with agreed authorisation levels. Our review will also take consideration of transactions processed outside of the system, if applicable;
- The processes for ensuring evidence is in place to support the commissioning of purchase orders and authorisation of payments to external parties, including the processes used for storing evidence; and
- Monitoring and reporting of purchase order and payment information.

In addition, we will use data analytics software tools to analyse payments data for external parties for the period July 2020 to September 2020. The results of our data analytics will be used to carry out sample testing in areas where potential control design and compliance issues have been identified. The data analytics testing will be carried out in the following area as agreed with management:

- Duplicate purchase orders relating to payments made to external parties.

to the scope of the audit assignment:

- Our work will focus specifically on the controls that support payments to external suppliers and, as such, we will not review controls for the authorisation of payments made to TfN employees or HMRC, for example;
- We will not review TfN's procurement or value for money processes as part of this audit;
- We will not comment on the suitability of suppliers sourced or transactions undertaken by TfN through its procurement processes;
- We will not review system back-up controls for the finance system or any of TfN's other IT systems;
- Whilst we will review the processes in place for ensuring that approval levels on the system have been assigned to authorised approvers, we will not provide assurance that system users have accessed their accounts in an appropriate and compliant manner (i.e. we cannot provide assurance that users have not shared their login details with other parties);
- We will perform testing on a sample basis from transactions in the current financial year;
- We will not review the processes in place for setting up new suppliers in the Finance system;
- We will not provide an opinion on the appropriateness of authorisation levels allocated to TfN staff within the Scheme of Delegation;
- 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 provide an assurance that error, loss or fraud does not exist.

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