



# TRANSPORT FOR THE NORTH

## Purchase to Pay Framework

Internal audit report 4.21/22

Final

4 November 2021

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# 1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, 100 per cent of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test, and review documentation, to complete the work in line with the agreed scope.

## Why we completed this audit

TfN has multiple means of making payments to suppliers which are categorised into a payment hierarchy. As per TfN's Payment Policy, the favoured approach is for Accounts Payable payments to be transacted through the Dynamics 365 (D365) financial system. This approach ensures that supplier payments are subject to an electronic approval workflow aligned to the authorisation levels in the Scheme of Delegation. The system also enables the receipting of goods and services purchased to be electronically recorded.

Secondary payment options, such as Treasury Payments (consisting of BACS and CHAPS payments directly for TfN accounts) and procurement card purchases are also used at TfN. However, these secondary payment options are to be used when the favoured payment method fails or there are business efficiencies for transacting using a secondary payment option.

At the time of our audit (October 2021) six members of staff were procurement card holders. Card holders are granted the authority to use their card to enter into financial transactions up to the set limit of £500 per transaction and £2k cumulative spend per month for individual card holders and £2k per transaction and £20k cumulative spend per month for the corporate card held by the Procurement Manager. Roles and responsibilities of both the card holder and card administrator (Financial Controller) are formally defined in the Procurement Card Policy. All purchases transacted using procurement cards are published on TfN's public website quarterly.

Staff expense claims are submitted and authorised via the D365 system, with supporting receipts required to be attached in the system. Expense claims require approval from the budget holder and Financial Controller.

TfN discourages out of pocket expenses and they should only be incurred for urgent travel and subsistence. Where possible, prior approval of the budget holder and Financial Controller should be obtained.

Between 1 April 2021 and 31 August 2021, only two of the six procurement cards were used at TfN by the Procurement Officer and Head of Stakeholder Engagement and Communications. For quarter one 2021/22 (ending 30 June 2021) a total of £12,049 was transacted by the two card holders.

Our review was designed to assess the controls in place in regard to TfN's purchase to pay framework, including the goods receipting of purchases made through D365 system and Treasury Payments, approval of payment runs, procurement card transactions and employee expenses.

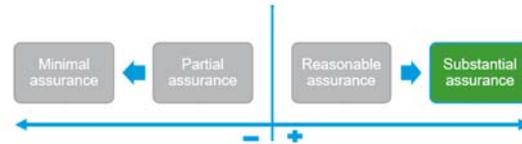
## Conclusion

Through our work, we confirmed that TfN has an established framework in place in regard to ensuring that all payment runs, and employee expense claims are appropriately authorised, and purchases made through Accounts Payable and Treasury Payment transactions for goods and services, are recorded as received. Our sample testing performed in these areas confirmed the application of the control framework in line with TfN policies and no exceptions were noted.

Two management actions have been agreed with management which are designed to strengthen TfN's control framework in relation to the authorisation of procurement card statements / reconciliations and the regular review of policies. However, this not impacted on the positive assurance 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 effective.



## Key findings

### We identified the following key findings:



There is no minimum defined frequency at which purchase to pay policies will be reviewed and approved to ensure the policies are reflective of current practices and fit for purpose. We also noted inconsistencies between the Payment Policy and Procurement Card Policy in relation to the monthly value of transactions that can be processed on procurement cards.



For a sample of 10 Accounts Payable transactions and 10 Treasury Payments made during 2021/22, we confirmed receipt of goods and services for payments made to external suppliers is recorded on the D365 system and all invoices and payment runs for the transactions reviewed were authorised by the Financial Controller, in line with TfN policies and procedures. No exceptions were noted as a result of this testing.



For a sample of 10 expense claims made by staff during 2021/22, our testing confirmed each expense claim had been submitted on D365, supporting receipts were retained and the expense claim was approved by the Budget Holder and Financial Controller in line with TfN policies and procedures. No issues were noted as a result of this testing.



No audit trail has been retained to demonstrate the Financial Accountant's review of monthly procurement card statements and suitability of purchases during the Covid-19 pandemic. Whilst monthly reconciliations are completed to review procurement card expenditure as part of the journal upload to the ledger, we noted that reconciliations had not been signed by the card holder and Finance Team as required by the Procurement Card Policy.



Monthly Operating Reports are produced to provide a high-level overview of TfN's income and expenditure. In addition, Financial Disclosure Reports are produced quarterly, detailing all TfN purchases above £500. These are published on the TfN website along with all procurement card transactions.

## Additional findings

We identified the following good practice that the TfN may wish to consider:



A Procurement Card Acceptance form is to be signed by both the card holder and the Financial Controller when procurement cards are issued. For the six current card holders at the time of our review, we obtained one signed Procurement Card Acceptance form for a card issued in 2021/22. In one case relating to a new card holder, the card holder has not yet returned their signed copy of the Procurement Card Acceptance and had not yet received their procurement card. In the remaining four cases, we were informed by management that these cards were all issued in previous years and paper copies of the signed Procurement Card Acceptance are held on site which were not accessible at the time of audit due to the Covid-19 remote working. As such a management action has not been raised but we note that it is considered good practice for electronic copies to be held of all signed Procurement Card Acceptance forms.

## 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.

Policies and Procedures				
<b>Control</b>	<p>Established Financial Regulations and policies are in place for the purchase to pay framework, which provide guidance on the appropriate procedures to be followed by staff. These include:</p> <ul style="list-style-type: none"> <li>• Procurement Card Policy;</li> <li>• Payment Policy; and</li> <li>• Expenses Policy.</li> </ul> <p>Policies and procedures are accessible to all staff via the SharePoint site.</p>	<b>Assessment:</b>		
		<b>Design</b>	✓	
		<b>Compliance</b>	Partial	
<b>Findings / Implications</b>	<p>Through our testing we confirmed that the Payment Policy was last updated in September 2021, the Procurement Card Policy was last updated in April 2018 and the Expenses Policy was last updated in June 2020. We noted that there is no set frequency at which the aforementioned policies are due to be reviewed. Therefore, there is a risk that policies may not reflect current processes in operation, which may lead to staff carrying out incorrect procedures. Policies should be subject to regular review at a minimum defined frequency (often annually) to ensure policies are reflective of current practices and fit for purpose.</p> <p>By review of the Payment Policy and Procurement Card Policy, we noted inconsistency between the specified restrictions on the value of transactions that can be processed on individual's procurement cards. As per the Procurement Card Policy, a cumulative monthly transaction limit of £1000 is set. However, as per the Payment Policy, a cumulative monthly transaction limit of £2000 is set. As such, there is a risk that card holders are unaware of the correct cumulative monthly transaction limit set for their cards. We were informed that the Payment Policy details the correct limits and arrangement with the bank would prevent the card limits from being exceeded. It is also noted that through our testing in this area we did not identify any instances of procurement card individual transaction or cumulative monthly spend limits being exceeded.</p>			
<b>Management Action 1</b>	<p>The Payment Policy and Procurement Card Policy will be updated to ensure consistency in relation to the cumulative monthly transaction limit for procurement cards.</p> <p>In addition, all Purchase to Pay related policies will be subject to regular review and approval at a minimum frequency defined by TfN Management.</p>	<b>Responsible Owner:</b>	<b>Date:</b>	<b>Priority:</b>
		Paul Kelly, Financial Controller	31 December 2021	Low

## Cyclical authorisation of procurement card statements

<b>Control</b>	On a monthly basis, the Financial Accountant (who is not a card holder) reviews procurement card statements to assess the suitability of expenditure for all purchases transacted. Procurement card reconciliations also take place as part of the monthly journal upload for procurement card transactions.	<b>Assessment:</b>	
		<b>Design</b>	✓
		<b>Compliance</b>	×

**Findings / Implications** We were informed by management that, prior to the Covid-19 pandemic, the Financial Accountant would review each procurement card holder's monthly statement and physically sign the statement as evidence of review. We were informed that since staff have been working remotely during the pandemic, statements have continued to be reviewed but physical signatures have not been provided. Therefore, an audit trail of the checks undertaken by the Financial Accountant to review procurement card expenditure has not been retained. In the absence of a documented review of the monthly review of procurement card transactions there is a risk that an appropriate member of staff does not review the suitability of the expenditure which may result in inappropriate purchases being made and potential breaches of the Procurement Card Policy. Whilst we recognise the impracticalities of obtaining wet signatures during the Covid-19 pandemic, review of procurement card transactions can be documented through an email trail or e-signatures.

During the Coronavirus pandemic, procurement card reconciliations have continued to take place monthly to prepare the manual journal to post the expenditure to the ledger. We obtained the procurement card reconciliations for June, July and August 2021 for the two card holders who used their procurement cards during this period and confirmed the consistency of the gross values with expenditure on the reconciliations and monthly statements. Whilst the spreadsheet used to perform the reconciliations is designed to capture the certification signatures of the card holder and Finance Team, this has not taken place during the Coronavirus pandemic.

<b>Management Action 2</b>	An audit trail will be maintained, confirming the authorisation of procurement card statements and procurement card reconciliations. In the absence of a physical signature this may be achieved through e-signatures on the procurement card statements or email confirmation.	<b>Responsible Owner:</b>	<b>Date:</b>	<b>Priority:</b>
		Paul Kelly, Financial Controller	31 December 2021	Medium

## 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		
	0	(10)	2	(10)	Low	Medium	High
Purchase to Pay Framework	0	(10)	2	(10)	1	1	0
<b>Total</b>					<b>1</b>	<b>1</b>	<b>0</b>

\* 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

We have included some comparative data (in the auditable area of purchase to pay frameworks) to benchmark the number of management actions agreed in this audit compared to similar audits conducted across our clients. Additionally, the tables illustrate the levels of assurance issued as a result of a number of similar audits undertaken.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	30%	✓
Reasonable assurance	60%	
Partial assurance	10%	
No assurance	0%	

Management actions	Average number in similar audits	Number in this audit
High	0.7	0
Medium	1.6	1
Low	2.8	1
<b>Total</b>	<b>5.1</b>	<b>2</b>

From a review of the above data, TfN is above average in respect of the assurance opinion and is performing above the average in respect of management actions raised.

*Please note that the assurance opinions and management actions raised within all our audits reflect the scopes agreed with management at the time of the audits.*

# APPENDIX C: SCOPE

## Scope of the review

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

### Objective of the risk under review

To ensure all payments completed by TfN are appropriately authorised and are made to approved individuals/ suppliers.

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

- Financial regulations and documented to pay policies and procedures are in place, up to date and are available to all relevant staff;
- Receipt of goods and services for a sample of Accounts Payable and Treasury Payments made to external suppliers;
- Authorisation of invoice and payment runs;
- Processes to ensure approval and issue of TfN procurement cards;
- Controls and checks in place to review and authorise procurement card transactions and suitability of purchases;
- Authorisation of employee expense payments, including testing of expense claim submissions and relevant management approval/sign-off; and
- Monitoring and reporting to Committee / Board in regard to purchases and procurement card expenditure.

### Limitations to the scope of the audit assignment:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will perform limited testing to confirm its operation in practice;
- Conclusions will be based on our assessments made through discussions with management, assessment of the current framework of controls and an initial review of relevant documentation available, either internally or externally generated;
- We will not comment on the suitability of suppliers sourced or transactions undertaken by the TfN through its procurement processes;
- We will not review system back-up controls for the electronic purchasing system or any of TfN's other IT systems;
- The scope of the work is limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review;
- We will not comment on whether the TfN achieves value for money from specific transactions;

- We will not examine accounting for VAT;
- We will not comment on the appropriateness of purchases, only whether the Financial Regulations are complied with;
- Authorisation of employee expense payments, including testing of expense claim submissions and relevant management approval/sign-off; and
- We will not comment on whether the appropriate employees have been issued with procurement cards.
- We will not provide assurances in regard to the accuracy or relevance of the information received or presented at meetings;
- The results of our work are reliant on the quality and completeness of the information provided to us; and
- Our work will not provide an absolute assurance that material errors, loss or fraud do not exist.

**Debrief held** 12 October 2021  
**Draft report issued** 21 October 2021  
**Responses received** 4 November 2021

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