

Review of Transport for the North (“TfN”) Anti-Fraud strategy

Introduction:

The monitoring of TfN’s Anti- Fraud strategy is contained in the Audit and Governance Committee’s Terms of Reference. This strategy has been adopted in to TfN’s constitutional framework by virtue of TfN’s Anti-Fraud and Corruption policy. The policy sets out TfN’s commitment to combat fraud and corruption wherever it may arise in relation to any of TfN’s activities.

The purpose of the review is to monitor the effectiveness of the Anti-Fraud strategy.

Parameters of Review:

This review looks at the controls that TfN has put in place to ensure the security of TfN’s financial transactions and the probity and integrity of its operations.

These measures are contained in TfN’s Anti-Fraud and Corruption policy.

They are as follows:

1. The Roles of the Statutory Officers

Section 151 Officer / Finance Director

The Constitution sets out the delegations to the Section 151 officer / Finance Director. He is responsible for the proper administration of TfN’s financial affairs and compliance with the Accounts and Audit Regulations 2015

These are set out in Part 3, 18.9 of the Constitution.

Within the Anti-Fraud and Corruption policy, the Finance Director is responsible for ensuring that suspected financial irregularity is reported and investigated. The Finance Director is responsible for deciding what investigation action is to be taken and ensuring it is completed.

Monitoring Officer / Head of Legal

The Constitution sets out the delegations to the Monitoring Officer / Head of Legal. She is responsible for reporting to the TfN board and to give advice on any matter that is likely to, or has given rise to, any unlawfulness or maladministration in the affairs of TfN.

These are set out in Part 3, 18.10 of the Constitution.

Within the Anti-Fraud and Corruption policy, any concerns relating to member compliance with the Code of Conduct would be referred back to the Member’s appointing Authority for consideration / investigation.

Neither the Section 151 officer nor the Monitoring Officer have needed to present a report to the Board during 2021 /2022 and 2022 / 2023.

2. The Finance Regulations

These have been adopted as part of the Constitution and set out rules in relation to accounting arrangements, banking arrangements, budgetary control, capital and revenue budgets, control of expenditure and virements, borrowing and investments and Internal Audit.

These are set out in Part 6, paragraph 26 of the Constitution.

3. Financial Controls inherent in the Financial System

TfN's financial systems incorporate a number of financial processes and controls. The two main systems utilised are its ERP system (Microsoft Dynamics) and its banking system with Barclays.

Transaction processing through the ERP system is performed via a permanent system architecture. The transaction flow through this system involves appropriate segregation of duties and financial controls. These processes include

- (1) Invoice processing
- (2) Goods receipting
- (3) Invoice matching
- (4) Payment processing
- (5) Bulk BACS decision packs
- (6) Vendpay journal and import to Barclays
- (7) Approvers decision packs. These include a series of independent checks to confirm the processes above have been followed, for example, every payment has an invoice, goods receipt, approved commissioning papers, purchase order and matches the bank details provided independently by the supplier.

In respect of number 6 above, once the Vendpay journal has been imported into Barclays an independent system of financial control exists. These include:

- (1) Biometric (i.e. finger-vein) identity verification technology to gain access.
- (2) An automated sort code, account number and name check. If these do not match system records for any payee, a warning message is raised.
- (3) The system flags any new banking settlement details i.e. suppliers paid for the first time. This raises a warning flag to bring this to the awareness of the approver.
- (4) Dual approval, using biometric technology.

Monitoring arrangements are frequent and robust. These include weekly bacs reconciliations, regular balance sheet reconciliations, monthly procurement card reconciliations, and monthly management accounts. Monthly budget reporting is provided to budget holders and reconciled to the ledger. TfN's quarterly Operating Report, which

includes both a performance update and financial information is made available to officers and members and is publicly available on TfN's website. Budget revisions are presented to TfN board for approval, oversight and challenge.

4. The Contract Procurement Rules & Contract Procedure Rules

These have been adopted in the Constitution. Their role is to promote good procurement and purchasing practice and public accountability and deter corruption.

They are set out in Part 6, paragraph 27 and 28 of the Constitution.

All officers responsible for procurement and purchasing must comply with these Rules and for the purpose of these rules all communication must be in writing to ensure that there is a audit trail in relation to the purchase of goods and or services.

The rules state that the procurement procedures must be consistent with the highest standards of integrity. The rules set out the ways in which proposed contracts should be advertised, tendering arrangements, evaluation procedures, requirements around negotiation and award of contracts. The rules have been designed to ensure all procurements comply with legal requirements as well as ensuring value for the money through transparent and open competition.

New procurement legislation is due to come into effect in October 2024, and the Procurement Manager is in the process of updating the rules and procurement documentation to ensure that it is reflective of the new legislation.

5. The Controls in the Procurement System

TfN has operationalised its controls through the implementation of its scheme of delegation of financial decision making via an electronic commissioning process (D356 electronic commissioning process) and the hard wiring of processes and controls in its ERP system. The establishment of sound practices, procedures, and systems, incorporating effective controls are subject to effective monitoring, supervisory and managerial arrangements.

The system incorporates the following controls which ensures that all procurements are carried out in accordance with the Contract Procedure Rules. The approval workflows within the system reflect the scheme of delegation in that they

- (1) Distinguish between programme and core activities
- (2) Identify expenditure levels and relevant approvers, and
- (3) Waiver requirements.

6. Internal Audit

Internal Audit is undertaken by an external internal audit provider (RSM) who input into the preparation of the Annual Audit Plan, which is approved by the Audit and Governance Committee. Internal Audit's findings are reported to the Committee for their consideration. This Plan includes an audit of the major financial systems to ensure that the checks and controls above are in place.

Since 2021 /2022, internal audit have provided substantial and reasonable assurances in relation to the following areas (1) Risk Management; (2) Core Financial Systems; (3) Income Management; (4) IT Audit; (5) Procurement Framework / Contract Management. These provide assurance that TfN's business controls and processes are effective.

7. Risk Management

TfN's risk management strategy supports the controls that are in place in respect of TfN's Anti Fraud strategy. Risks, controls, and mitigations actions are reviewed regularly, with a reporting structure in place at functional and corporate level.

8. The IT Security Policy

TfN has adopted a comprehensive IT Security Policy which includes TfN's Data Security Policy in order to ensure the security of TfN's data assets, to preserve the confidentiality, integrity and availability of its data assets; and to protect them from inappropriate access, modification or manipulation.

TfN has also put in to place a series of system protections to prevent unauthorised access, such as Azure compliance policies for all TfN devices, mandatory local drive encryption through BitLocker, mandatory account login security through conditional access; including multifactor authentication, location authentication and sign in alerts based on user location patterns.

Acceptable Use and Data Security are included in the induction training for all new members of staff and the IT Security Policy is available on the staff intranet.

The IT team are notified of any attempted unauthorised access to the TfN's IT systems through Microsoft Azure alert systems for sign in attempts and Azure Defender for Virus or Malware notifications. TfN operates a cloud-based infrastructure, if a virus does flag on a device, devices are separated from network infrastructure and cannot spread across the network due to the architecture of the environment.

No breaches of TfN' security systems have been identified since the last review by officers of the Anti Fraud strategy. While sign in attempts do happen, the multi-factor authentication and location authentication features which TfN has in place, block the sign ins from completion, ensuring prevention of any access to the accounts or systems. A log is kept of any attempted sign ins and users are identified and steps taken to investigate and force a change and increase in password strength and complexity.

A Cyber Security audit was undertaken during 2020 /2021 and provided "reasonable assurance" in relation to these processes.

A Cyber audit follow up was completed in summer 2022, confirming all outstanding remediations were completed. Cyber penetration testing is also completed on TfN systems on an annual basis to ensure maximum security. The most recent one was in December 2023.

The ICT team undertake cyber penetration weeks with external assessors on an annual basis. During this time, the security of the IT systems are tested and best practice is then relayed to the IT team with documentation on remediations.

Cyber security warnings are sent as needed to staff via an internal communications bulletin, internal Phishing tests are also put in place for staff with feedback training provided.

9. Codes of Conduct for Members and Officers

TfN has elected not to adopt its own Members' Code of Conduct and to rely on Board Members complying with the Code of Conduct of their home Authority.

Those co-opted Members who are not elected Members are expected to comply with the Cabinet Office Code of Conduct for Board Members of Public Bodies. All Local Authority Members' Codes of Conduct and the Cabinet Code of Conduct contain anti-corruption provisions ensuring that Members do not accept inappropriate gifts or hospitality and act only in the public interest.

During 2021 /2022 and 2022/ 2023 no complaint of misconduct has been received against any Member of the TfN Board.

Code of Conduct for Officers

TfN has adopted a Code of Conduct for Officers. This is included in the TfN Constitution and sets out the behaviours that TfN expects from its employees. This is then supported by TfN's employment policies, its induction and training and ultimately its disciplinary policy.

During 2021/22 and 2022 /2023 there have been no disciplinary procedures brought against officers relating to breaches of financial controls.

Whistleblowing Policy

The Policy asserts TfN's commitment to the highest possible standards of openness, probity and accountability in all its activities and its commitment to encouraging employees and other workers who have legitimate concerns about wrongdoing in any of the organisation's activities to voice those concerns. The Policy provides clear guidelines for officers on how to raise concerns and training for TfN employees has been rolled out on the Intranet Employee Development site. Employees can raise whistleblowing concerns to an independent organisation, Protect. The details of how to contact Protect are set out in the policy.

No concerns have been raised under the Policy during 2021/2022 and 2022 /2023.

Conclusion:

The organisational controls which TfN have put in place to support the Anti-Fraud and Corruption Policy are effective and it is considered that they provide reasonable assurance to the Committee that TfN has in place appropriate anti-fraud and corruption protection.

Members Code of Conduct