



# TRANSPORT FOR THE NORTH

## Procurement - Value for Money

Internal audit report 6.23/24

FINAL

24 May 2024

This report is solely for the use of the persons to whom it is addressed.  
To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING



# 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. Based on the information provided by you, we have been able to sample test, or undertake full population testing using data analytics tools, to complete the work in line with the agreed scope.

## Why we completed this audit

Procurement is the set of activities whereby Transport for the North (TfN) selects, implements and manages suppliers to fulfil business requirements. In the context of a procurement process, obtaining best value for money (VfM) means choosing the bid that offers the optimum combination of whole life costs and benefits to meet TfN's requirements. TfN's Procurement Policy states that "*TfN spends public money and is required to demonstrate VfM in all purchasing decisions*" and "*all public procurement of goods and services must be based on achieving and demonstrating VfM*".

As included in TfN's Statement of Accounts 2022/23, total cost of services expenditure for 2022/23 was £16,360,000.

At the time of our review (February 2024), the Government's 'Transforming Public Procurement' programme (which aims to "*improve the way public procurement is regulated*" and "*improve the way supplies, services and works are procured for the public sector*") is ongoing. The Procurement Bill, which will reform the existing Procurement Rules, received Royal Assent in October 2023. In early 2024, secondary legislation (regulations) will be laid to bring some elements of the Bill and the wider regime into effect. The existing legislation will apply until the new regime goes live, and will also continue to apply to procurements started under the old rules. It is anticipated that the Procurement Bill will become law in October 2024.

The existing legislation, which TfN is required to comply with under UK law, is the Public Contract Regulations 2015. New Thresholds were issued by the Cabinet Office from 1 January 2024.

In addition to the changes in procurement law, there has been significant changes in the Procurement Team at TfN. Over the past two years, there have been five Procurement Managers in post. This turnover has impacted the continuity in the management of procurement processes across the organisation. At the time of our review, an Interim Procurement Manager is in post and interviews for a permanent Procurement Manager are being undertaken.

Our review has considered the overall VfM and procurement framework in place at TfN.

## Conclusion

Through our work, we confirmed that a procurement framework is in place at TfN to consider the achievement of VfM in spending public money. Our sample testing of purchases confirmed compliance with TfN's procurement processes, designed to achieve VfM.

However, our testing of the waiver process noted that the control design (regarding the approvals required for a waiver) and compliance with the waiver process both need to be strengthened.

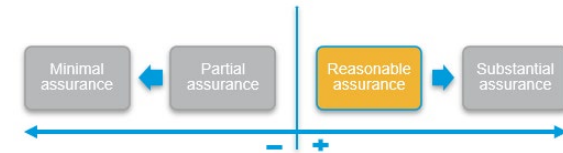
In addition, whilst we recognise there has been significant turnover in Procurement Managers at TfN, the version of the Procurement Policy available to staff and the Constitution have not been updated to reflect changes in UK procurement law post-Brexit. TfN is required, by law, to comply with the UK Public Contract Regulations 2015 (and not EU Procurement Regulations 2016). The implication of TfN's Procurement Policy and Constitution not being reflective of the changes in UK procurement law post-Brexit is that there is a risk that TfN do not comply with UK procurement law in practice, (Please note, our sample testing has not identified any instances whereby TfN has not complied with UK procurement law).

Two 'medium' and one 'low' priority management actions have been raised to further strengthen TfN's control framework for procurement and VfM.

### Internal audit opinion:

Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk.



## Key findings

### We identified the following key findings:



The version of the Procurement Policy available on the intranet was dated in September 2020 and is not reflective of current legislation. The Procurement Policy makes reference to the Official Journal of the European Union (OJEU) thresholds and that TfN is "required to comply with the requirements of the EU Procurement Regulations 2016". However, post-Brexit, TfN is not required to comply with EU law nor OJEU thresholds and is required to comply with UK Public Contract Regulations 2015. Whilst our sample testing has noted no instances where TfN have not complied with UK law, with a Policy and Constitution that is not reflective of UK law, there is a risk that TfN do not comply with UK law in practice.



The Constitution includes increased detail regarding the procurement requirements when compared to the Procurement Policy, which may cause confusion for the reader. The Constitution also makes reference to the OJEU thresholds and not the UK Public Contract Regulations 2015.



During our testing and walkthrough of D365, we noted that the threshold built into the workflow to require approval of the functional Director and Finance Director was £60,000 (£50,000 plus 20% VAT) and not £50,000 as per the Constitution. Appendix 10 of the Constitution indicates the values within Appendix 10 exclude VAT.



Whilst a Contract Register acts as a central repository of contracts, there is no formal monitoring of the Contract Register (such as monitoring to identify where contracts are approaching their expiry date). Extracts from the register, expenditure plans and projections are discussed with budget holders and contract managers on a monthly basis as part of the monthly financial review.



As per the Constitution, the Operating Board Team (OBT) is responsible for approving the waiving of contracts and procurement rules (subject to the limited delegation to the Finance Director to approve a waiver where the value is below the limit set out in the Scheme of Delegation). However, by review of the Scheme of Delegation, the limit at which the Finance Director can approve a waiver is not defined.



For a sample of seven waivers tested, Finance Director approval was not obtained in five cases. In all seven cases, OBT approval was not obtained.



We performed sample testing on 13 purchases made during 2023/24, confirming that procurement processes and approvals have been carried out in line with TfN's procurement thresholds. No exceptions were noted with this testing.

## Good practice

**We identified the following areas of good practice across our client base, which management may wish to consider:**



A number of our clients undertake a supplier spend and VfM analysis and include this in an annual procurement report. The annual procurement reports are designed to provide an update on procurement activity, a summary of exceptions from procurement processes and to report on procurement performance in the context of VfM.

Supplier spend and value for money analysis across our client base includes the following:

- Total annual spend for purchases of goods and services;
- Top 10 suppliers (by spend);
- Supplier spend per procurement threshold;
- Total expenditure by category;
- Social value reporting;
- VfM reporting; and
- Exemptions from procurement process (i.e. waivers).

Recognising the small size and scale of TfN, in line with good practice, management may wish to introduce reporting in this area to enhance visibility of spend, identify savings opportunities, improve supplier performance and help to identify and manage reputational risks associated with social value and VfM reporting.



The Constitution makes reference to a Procurement Strategy which sets out TfN's approach to procurement and key priorities for the next few years. In practice, a Procurement Strategy is not in place. In addition to setting out TfN's approach and key priorities, a Procurement Strategy would set out how TfN will achieve VfM through efficient, cost-effective and sustainable acquisition of goods or services that are essential to TfN's operations. Given the size and scale of TfN, TfN should either develop a Procurement Strategy, or remove reference to the Procurement Strategy in the Constitution.

## 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.

Procurement Policy		
<b>Control</b>	A Procurement Policy is in place to enable procurement activities to be performed in a consistent manner and to ensure that procurement activity across the business achieves Value for Money (VfM). The Procurement Policy was implemented in September 2020 and was due for review in September 2021. The Procurement Policy is available to staff via the intranet.	<b>Assessment:</b>  <b>Design</b> ×  <b>Compliance</b> N/A
<b>Findings / Implications</b>	<p>The version of the TfN Procurement Policy available on the intranet was implemented in September 2020 and is not reflective of current legislation. Between September 2020 and the time of our review (February 2024), there have been changes in procurement legislation post-Brexit and changes in the Procurement Team at TfN. As such, a management action has been raised to ensure the Procurement Policy is reflective of current legislation. Following our debrief meeting, we were informed by management that the Procurement Policy was reviewed in April 2022 to reflect legislative changes. The updated version of the Procurement Policy was not shared during our review and management confirmed that the updated version is not available on TfN's intranet, however, in practice, we were informed that the updated Procurement Policy has been adopted by the procurement function.</p> <p>We were further informed by management that the Procurement Policy was subject to further review in November 2023, but the conclusion of this review was deferred until the arrival of the new Procurement Manager.</p> <p>By review of the Procurement Policy available on the intranet, we noted that the Policy names three individuals as the Procurement Manager, Procurement Officer and Procurement Apprentice. All three named individuals are no longer in post at TfN.</p>	

## Procurement Policy

The new UK Procurement Act is expected to become effective from October 2024. The existing legislation (The Public Contract Regulations 2015) will apply to all procurement started before the new Procurement Act goes live. For procurement processes started after October 2024 the new Procurement Act will apply. Through discussion with management, we understand that a review of the Procurement Policy may be undertaken post-October 2024 to ensure the revision of the Policy incorporates the reform of existing Procurement Rules. However, the Procurement Policy must also be reviewed to incorporate the current legislation which TfN is legally required to comply with. Procurement practice must follow the Procurement Policy, and the Procurement Policy must follow UK procurement law. As noted above, whilst not evidenced in our review, we were informed by management that these changes have been made to the updated Procurement Policy.

We also noted that the TfN procurement thresholds (as included in the Procurement Policy available on the intranet) make reference to the Official Journal of the European Union (OJEU) thresholds and that TfN is “required to comply with the requirements of the EU Procurement Regulations 2016”. However, post-Brexit, TfN is not required to comply with EU law nor OJEU thresholds and is required to comply with UK Public Contract Regulations 2015. New thresholds came into effect in the UK from 1 January 2024, which TfN is legally required to comply with.

*(Please note, management action 1 also incorporates findings from the below controls regarding the Constitution and the D365 workflow).*

Management Action 1	The Procurement Policy and Constitution will be reviewed to ensure they are reflective of current legislation. As part of this review, management will ensure that reference to OJEU thresholds is removed and replaced with UK law and thresholds. Reference to named individuals who no longer work for TfN will be removed from the Procurement Policy. In advance of the Procurement Act becoming effective (expected October 2024), the Procurement Policy and Constitution will be updated to ensure it is compliant with the new Procurement legislation.	Responsible Owner: Procurement Manager and Head of Legal	Date: 30 September 2024	Priority: Medium
	The Constitution, Procurement Policy and workflow in D365 will be aligned and will be consistent regarding the procurement thresholds and the approvals required.			

## Constitution

<b>Control</b>	TfN's Constitution defines the procurement approval limits, thresholds and authorisation for goods, services, bids and contracts. The Constitution was amended by the General Purposes Committee on 19 July 2023 and is publicly available on TfN's website.	<b>Assessment:</b>
		<b>Design</b> ×
		<b>Compliance</b> N/A

<b>Findings / Implications</b>	<p>By review of the Constitution, we noted that the Constitution makes reference to OJEU limits. As noted above, post-Brexit, TfN is legally required to comply with The Public Contract Regulations 2015 thresholds (and not OJEU thresholds).</p> <p>Whilst we do not consider the Constitution and Procurement Policy to be inconsistent with each other regarding procurement limits and thresholds, we note that there are differing levels of detail in the two documents which could cause confusion for the reader. For example, as per the Procurement Policy, for procurements between £50,000 and the OJEU tender threshold, there is to be a formal competition with a Supplier Recommendation Report (SRR) full paper as support. As per the Constitution, for procurements between £50,001 and £100,000 there is to be a formal competition to at least three candidates (does not need to be advertised). For procurements between £100,001 and the OJEU threshold, there is an invitation to tender by advertisement to at least three candidates and the opportunity must also be advertised on the UK Government Contracts Finder website. As such, the Procurement Policy does not draw the distinction between TfN's requirements for purchases above and below £100,000.</p>
--------------------------------	---

<b>Management Action</b>	<b>See Management Action 1</b>
--------------------------	--------------------------------

## D365 Workflow

<b>Control</b>	Procurement approvals are obtained through the workflow in D365.	<b>Assessment:</b>
		<b>Design</b> ×
		<b>Compliance</b> N/A

<b>Findings / Implications</b>	During our testing and walkthrough of D365, we noted that the threshold built into the workflow to require approval of the functional Director and Finance Director was £60,000 (and not £50,000 as per the Constitution). We were informed by management that this was to allow for VAT, however, our management action above also incorporates the inconsistency of the Constitution and the workflow in D365.
--------------------------------	--

<b>Management Action</b>	<b>See Management Action 1</b>
--------------------------	--------------------------------



## Contract Register

<b>Control</b>	A Contract Register is in place acting as a central repository for contracts, documenting commencement date, expiry date, value and the contract manager. The Contract Register is populated by the Legal Team.	<b>Assessment:</b>		
		<b>Design</b>		Partial
		<b>Compliance</b>		N/A
<b>Findings / Implications</b>	There is no formal monitoring of the Contract Register (such as monitoring to identify where contracts are approaching their expiry date), however, contract managers have clear responsibilities around individual contract management. Through discussion with management we understand that there is an intention to introduce an organisation-wide contract management administration system that will assist contract managers to deliver a consistent solution and allow centralised overview. This does not currently happen as the Contract Register is only available to the Legal Team and not the individual contract managers and an organisation-wide contract management administration system is not in place. A management action has been raised to ensure contracts are monitored to ensure they are up-to-date and key dates (such as renewals and expirations) are not exceeded.			
<b>Management Action 2</b>	Contract managers roles and responsibilities will be reinforced.  A contract administration system will be implemented to allow consistent management of contracts across TfN and provide a mechanism for centralised review.	<b>Responsible Owner:</b> Procurement Manager	<b>Date:</b> 31 March 2025	<b>Priority:</b> Low

## Waivers

<b>Control</b>	<p>Where it has not been possible to comply with the Constitution (e.g., specialist supplier), a TfN Waiver Form is completed to request approval to waive the Procurement Policy / Constitution. Waiver Forms are approved in line with the Scheme of Delegation and all waivers are reported to the Operating Board Team (OBT) "periodically".</p>	<p><b>Assessment:</b></p> <p><b>Design</b> ×</p> <p><b>Compliance</b> N/A</p>
<b>Findings / Implications</b>	<p>As per the Procurement Policy, variations to the normal procurement procedures are permitted only in accordance with the waiver process set out within the Constitution and if appropriate approval has been obtained. Waivers will be reported to OBT "periodically". Approval should be obtained using the TfN Waiver Form and follow the Scheme of Delegation.</p> <p>As per the Constitution, OBT are responsible for approving the waiving of contracts and procurement rules (subject to the limited delegation to the Finance Director to approve a waiver where the value is below the limit set out in the Scheme of Delegation). However, by review of the Scheme of Delegation, the limit at which the Finance Director can approve a waiver is not defined.</p> <p>Through discussion with management, we understand that a Waiver Form is not used. Instead, the Supplier Recommendation Report (SRR) is utilised and, where the Procurement Policy/Constitution is waived, the SRR is designed to capture the obligations to be waived and why these obligations are being waived. The value of these transactions and their approval follows the Scheme of Delegation.</p> <p>To avoid confusion in the correct process to be followed for waivers, the Procurement Policy and Constitution should be aligned to confirm whether approval is to be obtained via a TfN Waiver Form or through the SRR and D365. The Procurement Policy and Constitution must clarify the agreed limit delegated to the Finance Director to approve a waiver and whether OBT are responsible for approving the waiving of contracts and procurement rules above a defined threshold, or whether waivers are reported to OBT for oversight. The frequency of reporting should also be defined as, at the time of our review, the Procurement Policy states that waivers are reported to OBT "periodically".</p> <p>From a report of payments made to suppliers during 2023/24 to date, we selected a sample of 20 payments made across TfN's tendering thresholds. In 13 cases, we confirmed TfN's procurement processes were followed. In the remaining seven cases (all between £1,000 to £50,000), the requirement to obtain three quotes was waived. As such, we performed testing on these seven cases to confirm a Waiver Form was completed and approved in line with the Scheme of Delegation and the waiver was reported to OBT.</p> <p>Our testing identified the following exceptions:</p> <ul style="list-style-type: none"> <li>In all seven cases, a TfN Waiver Form was not used. Through discussion with the Procurement Manager, we were informed that the SRR serves as the TfN Waiver Form in practice and, therefore, in all seven cases we confirmed that a SRR was used, designed to capture "<i>which obligations do you want to waive</i>" and "<i>why are we seeking to waive these obligations</i>";</li> </ul>	

## Waivers

- In five out of the seven cases tested, Finance Director approval was not obtained. In the five cases, the D365 workflow displayed "waiver = false" and, therefore, Finance Director approval was not obtained. In the remaining two cases, the purchase was approved by the Finance Director in D365; and
- In all seven cases, the waiver was not approved by OBT.

The management action raised is designed to define and strengthen the existing control framework. Once defined, the waiver approval process is to be complied with in practice.

In the absence of appropriately approved waivers, there is a risk that the Procurement Policy and/or Constitution is not complied with in practice without approval in line with TfN's Scheme of Delegation (and, in any cases exceeding the UK procurement thresholds, the law).

---

<b>Management Action 3</b>	The waiver approval process, and waiver reporting frequency to OBT, will be defined and will be consistent between the Procurement Policy and the Constitution. Waiver approvals and reporting to OBT will be complied with in practice.	<b>Responsible Owner:</b> Finance Director and Head of Legal	<b>Date:</b> 31 March 2024	<b>Priority:</b> Medium
----------------------------	--	---	-------------------------------	----------------------------

---

## APPENDIX A: BENCHMARKING

We have included some comparative data to benchmark the number of management actions agreed in this audit compared to similar audits conducted across our clients, as shown in the tables below. Additionally, the tables illustrate the levels of assurance issued as a result of a number of similar audits undertaken across our client base. It should be noted that the assurance opinions and management actions raised within all our audits reflect the scopes agreed with management at the time of the audits.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	50%	
Reasonable assurance	37%	✓
Partial assurance	12%	
No assurance	1%	

Management actions	Average number in similar audits	Number in this audit
High	0.09	0
Medium	1.49	2
Low	2.00	1
<b>Total</b>	<b>3.58</b>	<b>3</b>

## APPENDIX B: 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.

Risk	Control design not effective*	Non Compliance with controls*	Agreed actions		
			Low	Medium	High
There is a risk that TfN fails to deliver Value for Money in all areas within the funding allocation.	6 (8)	1 (8)	1	2	0
<b>Total</b>			<b>1</b>	<b>2</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 C: SCOPE

## Scope of the review

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

Objective of the area under review	Risk relevant to the scope of the review	Risk source
Our review will consider the overall procurement framework in place including the determination of measures to effectively report on Value for Money.	There is a risk that TfN fails to deliver Value for Money in all areas within the funding allocation.	Corporate Risk Register

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

#### The audit will consider the following;

- Policies and procedural documentation for ensuring procurement activities are performed in a consistent and effective manner.
- Financial Regulations and a Scheme of Delegation are in place, which include procurement approval limits and thresholds. This will include consideration of the way in which approval limits and thresholds are agreed/ approved and communicated to staff across TfN.
- The mechanisms for obtaining supplier quotes in order to ensure value for money is achieved. This will include consideration of whether appropriate processes have been carried out in line with procurement thresholds and Financial Regulations for a sample of purchases, and consideration of how TfN assess the suitability of suppliers (including consideration of value for money). Where it has not been possible to comply with the Financial Regulations (e.g., specialist supplier), we confirm that this has been documented and approved.
- The mechanisms for undertaking tendering exercises across TfN.
- The governance structure in place with respect to procurement and value for money, including the monitoring and reporting of procurement exercises, including supplier spend and value for money analysis.
- Whether a Central register of contracts is maintained and monitored on a periodic basis.

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

- Our review will not consider any other financial areas other than those specifically stated within the areas for consideration above.
- We will not comment on whether value for money for specific contracts has been achieved, we will only ensure that TfN has measures and processes in place.
- This is not a contract management review and, therefore, we will not consider TfN's contract management, due diligence arrangements and/or the negotiating of fees.

- We will not consider compliance with the entirety of the Financial Regulations or any other policy.
- Our review will not consider payments to employees.
- Our review will not consider capital expenditure.
- We will not comment on the suitability of suppliers sourced or transactions undertaken by TfN. Our review will focus on how TfN assesses the suitability of suppliers through its procurement processes;
- We will not comment on the appropriateness of goods and services procured, only that procedures are followed.
- Our review will not consider supplier additions or amendments.
- We will not verify any changes to supplier standing data.
- We will not review system back-up controls for the electronic purchasing system or any of TfNs other IT systems.
- We will not provide an opinion on the appropriateness of TfN's payment workflows or authorisation levels.
- We will not confirm whether goods procured have been used for non-business purposes.
- We will not substantively re-perform reconciliations of payments to the general ledger.
- We will not comment on the VAT implications of purchases.
- The results of our work are reliant on the quality and completeness of the information provided to us.
- The areas of consideration documented above are only able to be completed if the appropriate data is able to be provided.
- The results of our data analytics work are reliant on the quality of data provided to us. It was not possible to use data analytics to confirm whether payments made to contractors exceed the contracted sums.
- Our work does not provide assurance that material error, loss or fraud do not exist.

**Debrief held** 4 March 2024  
**Client written response to debrief document** 8 April 2024  
**Draft report issued** 11 April 2024  
**Responses received** 23 May 2024

**Final report issued** 24 May 2024

**Internal audit Contacts** Lisa Randall, Head of Internal Audit  
[lisa.randall@rsmuk.com](mailto:lisa.randall@rsmuk.com) / 07730 300 309  
  
Alex Hire, Associate Director  
[alex.hire@rsmuk.com](mailto:alex.hire@rsmuk.com) / 07970 641 757  
  
Ciaran Barker, Assistant Manager  
[ciaran.barker@rsmuk.com](mailto:ciaran.barker@rsmuk.com) / 01782 216187

**Client sponsor** Katie Roeves, Assistant Manager  
[katie.roeves@rsmuk.com](mailto:katie.roeves@rsmuk.com) / 01772 216148  
Paul Kelly, Finance Director

**Distribution** Paul Kelly, Finance Director

We are committed to delivering an excellent client experience every time we work with you. If you have any comments or suggestions on the quality of our service and would be happy to complete a short feedback questionnaire, please contact your RSM client manager or email [admin.south.rm@rsmuk.com](mailto:admin.south.rm@rsmuk.com)



**rsmuk.com**

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Transport for the North, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM UK Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.