



TRANSPORT FOR THE NORTH

Procurement Framework

FINAL

Internal audit report 3.18/19

19 February 2019

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Further information received	11 January 2019		
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Final report issued	19 February 2019	Client sponsor	Iain Craven, Finance Director Graham Bramwell, Procurement Manager
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1 EXECUTIVE SUMMARY

1.1 Background

A review of Transport for the North's (TfN's) procurement framework was undertaken as part of the approved 2018/19 Internal Audit Plan.

This review was designed to assess the key controls in place underpinning the activities of the TfN procurement function and to ensure they are operating adequately.

The contract value thresholds for contract award activities, detailed in the Contract Procedure Rules, are as follows:

- Up to £1,000: a written quotation (does not need to be advertised);
- £1,001 – £50,000: at least three written quotations (does not need to be advertised);
- £50,001- £100,000: formal competition to at least three candidates (does not need to be advertised);
- £100,001 – EU threshold: invitation to tender by advertisement to at least three candidates.

The TfN Supplier Expenditure Report from 1 April 18 to 20 December 18, reported that TfN has 152 contracts in place with a total value of £20,518,491. Information relating to the top five suppliers used by contract value is provided below:

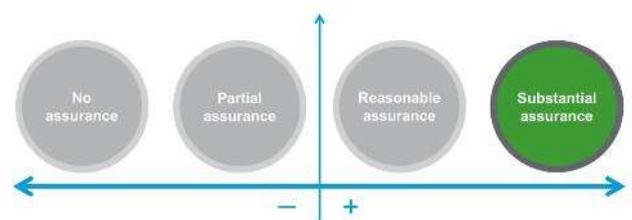
Supplier name	Number of contracts	Value of contracts
Network Rail	2	£10,034,893
Arriva Rail North	3	£2,445,252
PricewaterhouseCoopers	1	£1,985,439
FirstGroup TransPennine Express	4	£1,332,663
Atkins	11	£591,775

1.2 Conclusion

Through our work we were able to confirm that an appropriately designed framework is in place to ensure that use of quotes and tenders for the procurement of goods and services, recording of contracts and reporting of contract activities. We have identified a small number of areas where the control framework could be strengthened. These actions are not considered to have a major impact on procurement activities.

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 the identified risk is suitably designed, consistently applied and operating effectively.



1.3 Key findings

Financial procedures, policies and approval limits

- Documented Financial Procedures are contained within the TfN Constitution as approved by Board in April 2018. The Financial Procedures include requirement relating to procurement activities including Contract Procurement Rules and Competition Requirement.
- A Scheme of Delegated is contained within the TfN Constitution which sets out approved delegated limits for staff in relation to procurement activities. Observations of the Dynamics 365 Finance system confirmed that delegated limits are built into the system to ensure authorisation of payments to suppliers in accordance with the Scheme of Delegation.
- An up to date Procurement Policy is in place detailing TfN's procurement activities including how to buy items, commissioning approval levels, as well as quote and tender requirements. We noted that the policy was not accessible to staff through the TfN Share Point site. A management action has been agreed in this area.

Procurement Activity

- We selected a sample of 20 purchases made during 2018/19 (selecting ten purchases with a Purchase Order (PO) number and ten purchases without a PO number), to ensure quotes/tenders were obtained in accordance with the thresholds set out in the Contract Procurement Rules. No issues were identified from our testing. For the ten instances where TfN was not able to obtain the required level of quotes (e.g. single source providers or lack of response from supplier approached) this was documented in Supplier Recommendation Reports which were authorised in accordance with the Scheme of Delegation.
- We noted that staff authorising the procurement of goods and services from a chosen supplier, through the use of Supplier Recommendation Reports, are not required to declare interests in the chosen supplier prior to purchase. A management action has been agreed in this area.

We acknowledge that the TfN Constitution requires staff to inform their manager about any external business relationships and personal interests. This is encompassed within the TfN Code of Conduct which all staff are obliged to sign up to prior to their own contract commencement. However, the TfN Constitution does not include a requirement for Declarations of Interest by staff during procurement activity.

- Waiver forms are used to approve the purchase of goods and services that are outside of the Contract Procurement Rules, e.g. for single source purchases or on occasions where TfN does not have sufficient time to raise a Purchase Order for whatever reason. We confirmed that waiver forms are authorised by the Functional Director, Finance Director and Monitoring Officer, in accordance with the Scheme of Delegation, prior to purchase. We identified that a waiver form has been used for 18 of the 152 (approximately 12%) contracts in place. We noted that main reason for the use of waiver was due to single source contracts, mainly for contract extensions. The number and reason for Waivers has been highlighted to TfN Operating Board (OB) by the Procurement Manager in the December 2018 report, and will continue to be updated in future reports to OB. We have therefore not included any action within this report.

Supplier set up

- We tested the process for setting up new suppliers as part of the Authorisation of Payments audit carried out in November 2018. Our testing identified instances where bank details provided on letterheaded paper had not been signed by the supplier. A low priority action was agreed. We have carried out testing on a sample of five new suppliers set up since November 2018 to verify that the action from the Authorisation of Payments audit has been implemented. No issues were identified in our testing.

- We noted that the supplier set up flowchart contained on the TfN Share Point site, omits key checks that are carried out in practice, such as verification of bank details and therefore requires updating. In addition, we identified that the flowchart does not include the process for making amendments to supplier details. A management action has been agreed in this area. However, our testing can confirm that all required checks are being carried out correctly, so this is an administrative point only.

Contract Register

- A contract log is in place which provides details on suppliers, contract value, contract start date and contract end date for each contract. Through review of the Finance system we confirmed that all PO purchases at the time of audit were recorded on the contract log.
- The TfN Share Point site is used to store contractual paperwork, so that it is easily accessible to contract managers. For a sample of ten contracts selected from the Contract Log, we confirmed that paperwork was stored on Share Point for four contracts. Two contracts related to the purchase of IT equipment and we were informed that these were one off purchases that have no ongoing contract management requirements and therefore it was not necessary to store paperwork for these in Share Point. Hard copies of the paperwork were retained by Procurement in the safe. The paperwork for the other four contracts relates to contracts that should be stored in Share Point. A management action has been agreed in this area.

Reporting and Monitoring

- We were informed by management that the TfN Operating Board (OB) meet every two weeks. Reports in relation to procurement updates are prepared and delivered to the OB by the Procurement Manager monthly. We obtained copies of the report due to be delivered to the OB in December 2018, as well as update reports delivered in July and August 2018. We were informed by the Procurement Manager that update reports had not been delivered between August and December due to other time pressures and commitments. Management are aware of this, and whilst a management action has not been raised in this report, in our experience, these procurement updates to OB should be re-instated to provide effective oversight of the procurement function.

We do however acknowledge that the Procurement Manager has continued to meet with Directors on a monthly basis to update their element of the overall TfN procurement pipeline, which ensures that Procurement is aware of upcoming tender requirements, and that those requirements can be resourced by the Procurement Manager.

- We noted that the TfN Contract Log and a table providing details of all supplier expenditure formed part of the Procurement Manager's most recent OB report (taking place 20 December 2018). Upon review of the report and appendices, we noted that TfN Cost Overrun Analysis and Procurement Pipeline Reports were reported to the meeting.
- The most recent version of the Procurement Pipeline (as at December 2018) was obtained and we confirmed that the documented highlights all months, to the end of 2019/20, in which it was anticipated that each business unit would require assistance from the TfN procurement function, for example, by way of retendering or renewing contracts. Management confirmed that the purpose of the document is, therefore, to assist with the planning of procurement activities, further streamlining the overall process.
- We identified as part of our review, examples of TfN encouraging and / or seeking to improve value for money through Finance, Procurement and Contract Management training.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Agreed actions		
	Low	Medium	High
Procedural documentation	1	0	0
Procurement activity	0	1	0
Supplier details	1	0	0
Contracts	1	0	0
Total	3	1	0

1.5 Additional feedback

We have identified the following examples of good practice during this audit:

- The TfN Contract Log and a table providing details of all supplier expenditure formed part of the Procurement Manager's most recent OB report. This is the first time this specific report has been presented. We consider this to be an example of good practice which should continue to be reported.

We have also identified good practice at similar organisations that the TfN may wish to consider:

- It is noted that TfN has robust controls in place for the authorisation of goods and services exempt from the Contract Procedure Rules, using waiver forms. In addition, the number and reason for Waivers has been highlighted to TfN Operating Board (OB) by the Procurement Manager in the December 2018 report, and will continue to be updated in future reports to OB. In our experience regular reporting of waivers to Board / Audit and Governance Committees enables an organisation to identify trends and increases in the use of waivers by departments. This will provide additional scrutiny to ensure waivers are not being mis-used.

2 DETAILED 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 regulatory scrutiny/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, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
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Area: Procedural documentation

2.1	Procurement Policy A documented Procurement Policy is in place detailing TfN's procurement activities.	Yes	No	<p>We obtained a copy of the TfN Procurement Policy and confirmed that the document provides detailed information on the TfN procurement activities.</p> <p>The Policy has a designated author and was up to date, having been last reviewed in November 2018.</p> <p>We noted that the Procurement Policy was not uploaded to the Share Point site to ensure that it is accessible to all staff.</p>	Low	The Procurement Policy will be uploaded to the Polices section of the TfN Share Point site.	Completed (February 2019)	Graham Bramwell, Procurement Manager
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
Area: Procurement Activity								
2.2	<p>Declarations of interest</p> <p>Staff involved in the tender of goods and services are required to complete a tender launch checklist which includes the declaration of interest in suppliers. Staff authorising the use of chosen suppliers are not required to declare interests in the supplier.</p>	No	N/A	<p>We confirmed that staff involved in scoring tenders for the procurement of goods and services, are required to complete a tender launch checklist to declare interests in potential suppliers.</p> <p>Following tenders, a Supplier Recommendation Report is completed to request the purchases of goods or services from the chosen supplier.</p> <p>We noted that staff authorising Supplier Recommendation Reports are not required to declare interests in the chosen supplier prior to purchase.</p> <p>We do however acknowledge that the TfN Constitution requires staff to inform their manager about any external business relationships and personal interests. This is encompassed within the TfN Code of Conduct which all staff are obliged to sign up to prior to their own contract commencement. However, the TfN Constitution does not include a requirement for Declarations of Interest by staff during procurement activity.</p> <p>Without declarations of interests there is a risk that a member of staff can influence a tender exercise and</p>	Medium	The Supplier Recommendation Report will be amended to require staff authorising the procurement of goods and services from a chosen supplier to declare any interests in the supplier.	22 March 2019	Graham Bramwell, Procurement Manager

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				authorise the selection of a supplier where a conflict of interest exists.				
Area: Supplier Details								
2.3	Supplier set up and amendments The process for setting up new suppliers is documented on a supplier set up flowchart. The process for carrying out amendments to supplier details is not documented.	No	N/A	<p>We confirmed that a process flowchart is in place for setting up new suppliers. We noted that the flowchart omits key checks, such as bank details verification, that are carried out in practice.</p> <p>We also identified that a flowchart is not in place for making amendments to supplier details to ensure that key details are verified before changed are made. We were informed that there have not been any amendments made to supplier details during 2018/19. It is also noted that we did not identify any issues in our testing relating to the setting up of new suppliers and therefore this action is only an administrative point.</p> <p>The absence of up to date procedural documents may result in incorrect or inconsistent procedures being followed, particularly in the absence of key staff.</p>	Low	<p>The process flowchart for setting up new suppliers will be updated to include all process carried out in practice, such as the verification of bank details and completion of the bank verification form.</p> <p>The flowchart will also include the required verification checks for processing requests made by suppliers to amend details such as bank details and telephone numbers etc.</p>	15 March 2019	Graham Bramwell, Procurement Manager
Area: Contracts								
2.4	Contract Register A Contract Log is used to record details of all	Yes	No	<p>We confirmed that a Contract Log is in place containing details of contracts such as contract value, start date and end date. Through review of the</p>	Low	<p>The Contract Log will be updated to include indication of whether contract documentation</p>	29 March 2019	Graham Bramwell,

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	contracts in place. Copies of contracts are uploaded to the TfN Share Point Site, so they are accessible to all contract managers.			<p>Finance system we confirmed that all PO purchases at the time of audit were recorded on the Contract Log.</p> <p>The contract end dates are monitored to ensure that contract managers are alerted of contracts that are due for renewal. This is also reported in the contract pipeline paper that is presented to the Operating Board.</p> <p>Hard copies of contracts are stored in a safe and electronic copies are stored on the TfN Share Point site.</p> <p>For a sample of ten contracts selected from the Contract Log, we confirmed that four contracts were stored in Share Point. Two contracts related to the purchase of IT equipment and we were informed that these were one off purchases and therefore it is not necessary to store paperwork for these. The paperwork for the other four contracts relates to contracts that should be stored in Share Point.</p> <p>We confirm through review of Operating Board minutes and Contract Management training documents that contract managers have been reminded of their requirement to upload documents in SharePoint.</p>		has been uploaded to Share Point. This information can then be used to monitor and report compliance.		Procurement Manager

APPENDIX A: SCOPE

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

Scope of the review

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

Objectives of the area under review

To ensure that there are appropriate controls in place that are operating effectively to underpin the activities of the TFN procurement function.

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

Areas for consideration:

Procedural documentation:

- Financial regulations and Scheme of Delegation;
- Strategy, policy and procedures documentation; and
- Approval limits.

Procurement Activity:

- Tendering.
- Quotations;
- Process of declarations of interests from those authorised to approve successful tendering companies/contractors; and
- Waivers to compliance with financial regulations.

Supplier Details:

- The process by which standing data, supplier names, addresses and bank account details updated / amended and establish whether any independent checks on their validity are undertaken before any such changes are actioned; and
- New supplier set up.

Contracts:

- Central register of contracts (including the period of coverage and notification for re-tender/negotiation); and

Reporting and Monitoring:

- Procurement and supplier options;
- Reports in regard to expenditure, suppliers and savings; and
- Value for Money reporting activities, including supplier spend analysis.

Limitations to the scope of the audit assignment:

- The audit will not consider any other financial areas other than those specifically stated within the areas for consideration above;
- We will not consider compliance with the entire Procurement Strategy and Policy;
- Our review will not consider capital expenditure or payments to employees;
- We will ensure that a contract register is in place, however we will not consider the actual contracts in detail, including approval and the ongoing monitoring of the delivery of the contract;
- We will not comment on the School's value for money processes or whether value for money has been achieved for specific transactions;
- Testing will be undertaken on a sample basis;
- We will not examine the accounting for VAT;
- Our review does not seek to replicate advice provided by treasury management or investment advisors;
- We will not verify any changes to supplier standing data, rather the processes in place for checking the changes are genuine; and
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

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 in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	23.81%	
Reasonable assurance	57.14%	✓
Partial assurance	19.05%	
No assurance	0%	
Management actions	Average number in similar audits	Number in this audit
	5.38	4

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