



# TRANSPORT FOR THE NORTH

## Payment Authorisation Processes, Expenses and use of Procurement Cards

FINAL

Internal audit report 2.18/19

4 December 2018

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

A review of the payment authorisation, expense and procurement card processes was undertaken as part of the approved 2018/19 Internal Audit Plan.

Transport for the North (TfN) is a Partnership that brings together the North's nineteen local transport authorities and business leaders together with Network Rail, Highways England, and HS2 Ltd. TfN has been operational since April 2018.

This review was designed to assess the controls in place for authorising payments made by TfN. The review focused on payments made to suppliers, expense payments to TfN employees, and procurement card payments completed by TfN staff to ensure all payments are appropriately authorised and are made to approved individuals / suppliers.

Information relating to TfN payments, suppliers, expenses and procurement card payments from 1 April to 31 October 2018/19 is provided below.

Area	Value
Total number of payments made (excluding payroll)	348
Total value of payments made (excluding payroll)	£9,845,268
Total number of employee expenses made	86
Total value of employee expenses made	£7,129
Main reasons for expense claims	Rail fares, mileage & subsistence
Total value of Procurement card transactions	£15,982
Total vendors suppliers used	66,180
<b>Top five suppliers used by value:</b>	
Network Rail Infrastructure Limited	£3,871,232
Transport for Greater Manchester	£2,237,677
PricewaterhouseCoopers LLP	£1,102,121
Arriva Rail North Greater	£382,823.00
Manchester Pension Fund	£329,066.85

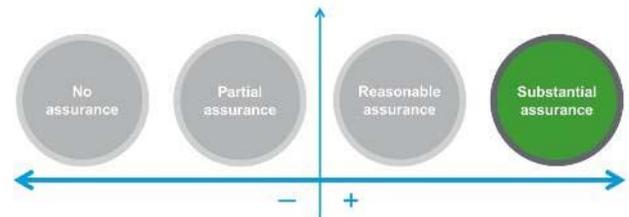
## 1.2 Conclusion

Overall our review has identified that the systems and controls in place were adequate for TfN to place reliance on the processes for the authorisation of supplier payments, expenses and procurement card payments. The controls in place for setting up suppliers and issuing procurement cards was found to be adequate.

We have noted two areas in relation to supplier set up and procurement cards which has led to two 'low' priority management actions being agreed.

### 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 areas are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

### Policies and Financial Regulations

- Financial Regulations are contained within the TfN Constitution as approved by Board in April 2018.
- The Financial Regulations are supported by several departmental policies including the Payments Policy, Expenses Policy and Procurement Card Policy which provide roles and responsibilities relating to their relevant area and include procedural instructions. We confirmed that all three policies were accessible to staff via the TfN intranet.
- A Scheme of Delegation is contained within the TfN Constitution which sets out approved delegated limits for staff. Observations of the Dynamics 365 Finance system confirmed that delegated limits are built into the system to ensure adequate authorisation of payments.

### Supplier set up

- We selected a sample of 20 new suppliers used during 2018/19 to determine whether each supplier had been set up in accordance with the TfN procedures. Our testing confirmed that supplier set up forms and supplier bank details had been provided by 20 suppliers. However, we identified two instances where forms provided by suppliers containing bank details had not been signed by the supplier. We have agreed a 'low' priority management action in relation to this area.
- We also confirmed that supplier bank details had been checked for all 20 suppliers and suppliers had been set up in the system by a different member of staff to the person verifying bank details to ensure segregation of duties.

### Authorisation of payments made to suppliers

- We selected a sample of 20 Accounts Payable payments made to suppliers during 2018/19 to determine whether payments had been authorised in accordance with TfN policies. Our testing confirmed that purchase requisitions that had been approved by appropriate Finance officers within the Finance system, in accordance with the Scheme of Delegation for all 20 transactions.

- We confirmed that adequate segregation of duties was in place between members of staff approving requisitions, goods receipting and authorising supplier payments.
- TfN also makes 'Treasury Payments' through the Finance system in exceptional circumstances when Accounts Payable transactions cannot be used. TfN's electronic banking facilities allow it to make BACS, CHAPS and Faster Payments directly from its accounts. These types of transactions are typically used when urgent payment to suppliers is required. We selected a sample of 20 Treasury Payments made during 2018/19 and confirmed that all 20 transactions had been goods receipted via email prior to payments being made. All 20 payments made to suppliers had been authorised by two Finance Team members in accordance with the TfN Scheme of Delegation and Payments Policy prior to payments being made.

#### **Authorisation of employee expense payments**

- TfN's first employee expenses payment run was carried out in June 2018. Therefore, four payment runs had been made during 2018/19. We confirmed that all four payment runs had been authorised by two Finance Team members of staff in accordance with the TfN Payments Policy prior to payments being made.
- We select a sample of 20 staff expense claims made in the D365 Finance system to determine whether each claim had been appropriately approved. Our testing confirmed that all 20 expenses claims had been approved by the employee's line manager and the Financial Controller prior to expense claims being paid. From the 20 expense claims reviewed we identified five instances where the first stage of approval was self-approved by the employee making the claim. However, the two levels of approval required ensures that adequate segregation of duties was in place for all transactions; all five of these transactions were also approved by the Finance Team.

#### **Authorisation of procurement card payments**

- We reviewed all 21 procurement cards statements from 2018/19 to determine whether transaction logs had been submitted and approved in accordance with the TfN Procurement Card Policy. Our testing identified that all 21 transaction logs had been completed and signed by the card holder and approved by the Financial Controller. However, six of the transaction logs had not been submitted to the Financial Controller for review within five working days of the month end as required by the Procurement Policy. In addition, one log had not been dated. A 'low' priority action has been agreed in this area.
- We confirmed that the value of all monthly statements and individual transactions on the statements were in accordance with individual approved limits of £500 per transaction and £1k per month (£2k per transaction and £20k per month for Procurement Manager) set out in the Procurement Card policy.
- We confirmed that all Procurement Cardholders had signed a card acceptance form prior to their card being issued and for the one card that had been returned, the card had been cut and retained by the Financial Controller.

## 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
Supplier set up	1	0	0
Procurement card payments authorisation	1	0	0
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>

## 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
<b>Area: Supplier Set Up</b>								
2.1	<p><b>Supplier Set Up</b></p> <p>Suppliers are required to complete supplier set up forms and submit bank details on signed letter headed paper before they are set up in the Procurement system.</p> <p>The Procurement Team verify bank details through a phone call to the supplier and sign the supplier set up form</p>	Yes	No	<p>We selected a sample of 20 suppliers set up during 2018/19 to determine whether suppliers had been set up in accordance with the TfN supplier set up procedures.</p> <p>Testing identified:</p> <ul style="list-style-type: none"> <li>All 20 suppliers had completed supplier set up forms. All 20 forms had all been retained by the Procurement Team.</li> <li>All 20 suppliers had submitted bank details on letter headed paper. However, two of these</li> </ul>	Low	Staff will be reminded of the TfN procedure to obtain signed letter headed paper prior to suppliers being set up in the Finance system.	01 January 2019	Gareth Sutton, Financial Controller

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	before supplier details entered into the Procurement system.			<p>had not been signed by the supplier.</p> <ul style="list-style-type: none"> <li>All 20 supplier forms had been signed by a member of the Procurement Team to confirm that supplier bank details had been verified via a phone call.</li> <li>All 20 suppliers had been set up in the system by a different member of staff to the person verifying bank details.</li> </ul> <p>Without signed letter headed paper there is a risk that bank details may not have been provided by an appropriate member of staff from the supplier. It is acknowledged that the TfN additional control of verifying bank details by phone reduces the risk of fraud associated with obtaining supplier bank details.</p>				
<b>Area: Procurement Card Authorisation</b>								
2.2	<p><b>Procurement Card Payments</b></p> <p>In accordance with the Procurement Card Policy card holders are required to complete and submit procurement card transaction logs to the Financial Controller for approval within five</p>	Yes	No	<p>We selected all 21 monthly Procurement Cards statements from 2018/19 to determine whether transaction logs had been submitted and approved in accordance with the TfN Procurement Card Policy.</p> <p>Testing identified:</p> <ul style="list-style-type: none"> <li>All 21 transaction logs had been completed and signed by the card holder.</li> </ul>	Low	The requirement to submit procurement transaction logs within five working days of month end will be amended in the policy to a more achievable timeframe.	01 January 2019	Gareth Sutton, Financial Controller

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	working days of a financial period end.			<ul style="list-style-type: none"> <li>All 21 transaction logs had been approved by the Financial Controller.</li> <li>Six out of the 21 transaction logs had not been submitted within 5 working days of the month end as required by the Procurement Policy. In addition, one log had not been dated. The longest delay was 70 working days after month end.</li> </ul>				

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

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

#### Areas for consideration:

This review is designed to assess the controls in place for authorising payments made by TfN. This will include payments made to suppliers, expense payments to TfN employees, and procurement card payments completed by TfN staff. The following areas will be specifically considered as part of our review:

- Financial regulations and documented procedures for the processing of supplier payments, staff expenses and procurement card payments;
- Payment authorisation levels, including consideration of the way in which authorisation levels are agreed/approved and communicated to staff across the organisation (this will include consideration of the inputting of authorisation levels to the electronic purchasing system);
- Processes for setting up new suppliers and amending existing supplier details on the finance/electronic purchasing systems;
- Authorisation of payments made to external suppliers, including testing of transactions processed through the electronic purchasing system and consideration of any transactions processed outside of the system, if applicable;
- Authorisation of employee expense payments, including testing of expense claim submissions and relevant management approval/sign-off; and
- Authorisation of procurement card payments, including testing of the approval of individuals' procurement card statements and consideration of the controls over the issuing/removal of cards for employee new starters/leavers.

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

- 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 the TfN through its procurement processes. Furthermore, we will not comment on whether or not value for money has been achieved through transactions undertaken by TfN;
- We will not review system back-up controls for the electronic purchasing system or any of TfN's other IT systems;

- We will not comment on the appropriateness of expense claims submitted by TfN employees;
- We will not comment on the appropriateness of procurement cards or procurement limits issued to TfN employees, only that cards have been issued in accordance with the organisation's agreed standards;
- Any testing undertaken during the review will be performed on a sample basis only; and
- Our work does not provide any guarantee against errors, loss or fraud or provided an assurance that error, loss or fraud does 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	42.86%	✓
Reasonable assurance	42.86%	
Partial assurance	14.28%	
No assurance	0%	
Management actions	Average number in similar audits	Number in this audit
	5.21	2

# FOR FURTHER INFORMATION CONTACT

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