ID and Title:	20 607 Procurements during Covid-19		
Engagement Sponsor:	Matthew Dreissen, Head of Procurement LU	Strategic Risk:	ER7 Financial Sustainability
Business Area:	Procurement & Supply Chain	Date	P12, 3 March 2021

Objective

The purpose of the audit was to provide assurance on the adequacy and effectiveness of controls for procurements conducted during Covid-19 pandemic

Scope

The scope of the audit included the following key areas of risk:

- Lack of appropriate authority for procurements;
- Lack of transparency over decision making process;
- Adequacy of resources;
- Ineffective planning;

Issue overview

Total	Rating		
	High	Medium	Low
0	0	4	0

Summary of key findings and corresponding management actions

Finding	Management action
There should be a clear audit trail from requisition to release of Purchase Order (PO). Inconsistencies in the process of raising Shopping Carts and release of Purchase Orders means that a clear audit trail is not immediately available. This increases the risk of controls being relaxed or avoided.	1. Define a clear and unambiguous process for all staff to follow. Process to include minimum requirement for audit trail before Shopping Cart is approved. This will include documented request from requisitioner for the goods or services, Outline Agreement for contracts. 2. Existing guidance will be refreshed with support from the Chief Procurement Officer (CPO) / Chief Finance Officer (CFO) to improve compliance.
Use of Materials Requirement Planning (MRP) process does not provide a clear audit trail of who approved a Shopping Cart. Allied to the absence of	3. The Procurement Improvement Programme will look at ways of improving this process to provide better visibility and control over the process without any negative impact to the business.

clear supporting documents on SAP this increases the risk of financial loss to TfL	
Use of Single Sourcing not adequately controlled or documented. Lack of visibility increases risk to TfL of uncompetitive processes as well as reputational and financial damage.	4. P&SC to introduce more robust controls to ensure all SSR are recorded on the Contracts Register and that there is consistency in the process.
There were a number of instances where papers submitted for approval did not capture signatures from budget holders or include any form of electronic confirmation from them. In a couple of instances there were concerns over segregation of duties that should have been managed more proactively instead of relying upon SAP. A central record is maintained for all staff with Delegated Procurement Authority but no such repository exists for Delegated Financial Authority resulting in an over reliance on SAP Roles to fulfil this function. In most instances this does not appear to be an issue as SAP Role holders are Band 4 or above. However, in one instance a Band 1 colleague has substitution approver rights and approved a PO for over £100K.	5. P&SC to consider developing a system based workflow for approving key documents – purchase requisition, contract award recommendation, budget approval etc. 6. P&SC to work with Finance to improve guidance on Delegated Financial Authority, Project Authority and the Standing Orders, ensuring authorities are documented and aligned to SAP Roles. 7. P&SC to advocate that the system used to manage DPA is adapted and used to manage DFA across TfL.

Conclusion

Whilst a number of controls are in place, opportunities for control improvements exists. In particular and not attributable to a relaxation of controls in response to Covid-19, there is some cause for concern as some expected controls, systems and processes are not adequate for the effective management and delivery of procurements. On this basis, we have concluded that the control environment for this area requires improvement.

We would like to thank all those who were involved in and contributed to this audit.

Introduction and background

- The Covid-19 pandemic has presented unforeseen challenges to TfL as it has to the country in general. As a consequence Procurement & Supply Chain staff were tasked with some challenging requirements while also dealing with existing needs and new ways of working.
- Senior management in London Underground requested this audit to provide assurance that management controls were adequate and that any risks associated with the procurements performed during the Covid-19 period between 31 March 2020 to 31 August 2020 had been managed effectively.
- The TfL Management System has been developed to support the delivery of TfL's services while also supporting TfL's commitments on corporate governance.
- The procurement lifecycle starts with the identification of the requirement, development of a procurement strategy and specification, the procurement and contract for the goods/services, implementation operation and management of the contract, and the review of the contract for future requirements.
- During this period we were informed that there had been no tenders taking place and Purchase Orders had been issued either using existing contracts, framework agreements or under a non-competitive arrangement.
- Effective controls for a procurement would ideally be a documented statement of requirement from the budget holder, a strategy for the procurement approved at the relevant Delegated Procurement Authority, a documented decision to award the contract and a clear audit trail of this information on SAP. The workflow on SAP acts as an additional and supplementary control for the procurement process.
- For the purpose of this audit, we requested a report of all PO raised in the six month period commencing 1 March 2020. From this report we selected 56 PO to use as a test sample.
- The test sample includes PO issued using existing contracts, framework agreements and non-competitive contracts.

Good practice

- The Purchase Order Support Form used by London Trams is a very good example of how to maintain a clear audit trail of the procurement process.
- The Delegated Procurement Authority (DPA) register is a good example of how to manage and maintain control of this area. It provides an accessible record of all DPA holders and their limits making it relatively easy to ensure any approvals have been authorised by an individual with the appropriate level of DPA.

Limitations or Restrictions

- No notable limitations.

<div style="text-align: right; background: #f5a800;">**MEDIUM**</div>

1.0 Lack of clear audit trail

Issue
The procurement lifecycle starts at the identification of the requirement through the sourcing of the goods/services, ordering to paying for the goods / services.

In many instances it was not clear who requested the goods being ordered and who approved the expenditure. We observed a number of instances where documents attached to the PO in SAP did not have the relevant signatures recorded. There should be a clear audit trail from requisition to release of Purchase Order.

Inconsistencies in the process of raising Shopping Carts and release of Purchase Orders means that a clear audit trail is not immediately available. The Shopping Cart should be clear in who requested the goods/services with supporting documents attached as evidence including relevant budgetary approval before the Shopping Cart is created.

Business risk impact
Lack of clear audit trail increases risk of fraud, financial loss and unauthorised expenditure. This also increases the risk of controls being relaxed or avoided.

Management action(s)			
#	Action	Owner	Due
1.	Define a clear and unambiguous process for all staff to follow. Process to include minimum requirement for audit trail before Shopping Cart is approved. This must include documented request from requisitioner for the goods or services, Outline Agreement for contracts. This should be supported by periodic Exception Reports to highlight where an OA is not used.	Jonathan Patrick, Chief Procurement Officer	28/02/2022
2.	Existing guidance for the entire procurement life cycle needs to be refreshed with endorsement by CPO / CFO to improve compliance.	Jonathan Patrick, Chief Procurement Officer	28/02/2022

<div style="background-color:#FFC000;">MEDIUM</div>

2.0 MRP Process

Issue
Use of Material Requirements Planning (MRP) process does not provide a clear audit trail of who approved a Shopping Cart. Allied to the absence of clear supporting documents on SAP this increases the risk of financial loss to TfL. The MRP process is used to order goods that are used on a regular or repeated basis. A Purchase Order is raised for a set amount (value or number of units) and staff are then able to raise shopping carts against this PO which do not require any further approvals. It is possible that goods are over-ordered by mistake or deliberately via this process. The MRP process itself is a necessity given the nature of the goods that it is used for as a rule.

Business risk impact
Lack of control over process increases risk of over-ordering, unauthorised expenditure and fraud.

Management action(s)

#	Action	Owner	Due
3.	The Procurement Improvement Programme will look at ways of improving this process to provide better visibility and control over the process without any negative impact to the business.	Jonathan Patrick, Chief Procurement Officer	28/02/2022

<div style="background-color:#ffc000; text-align:right;">**MEDIUM**</div>

3.0 Non-competitive procurements

Issue
Use of Single Sourcing not adequately controlled or documented. As a result of previous audit findings, P&SC instituted a new process to improve controls over non-competitive transactions (also known as Single Source Requirements) which requires all requests to be recorded on the Contracts Register before the request is approved by the DPA holder. Out of our sample of 56 PO for this audit, we noted that there were 11 SSR out of which only4 were clearly recorded on the Contracts Register.

Business risk impact
Inability to demonstrate that we have conducted these in a a fair and transparent manner increases financial, legal and reputational risk in case of challenge.

Management action(s)

#	Action	Owner	Due
4.	P&SC to introduce more robust controls to ensure all SSR are recorded on the Contracts Register and that there is consistency in the process.	Jonathan Patrick, Chief Procurement Officer	31/10/2021

<div style="background-color:#F5A800;color:#1F3864;font-weight:bold;padding:4px;text-align:center;width:120px;float:right">MEDIUM</div>

4.0 Delegation of authorities

Issue
Our review noted procedural inconsistencies where papers submitted for approval did not capture signatures from budget holders or include any form of electronic confirmation from them. In a couple of instances there were concerns over segregation of duties that should have been managed more proactively instead of relying upon SAP. We noted five instances where documents were attached but did not contain the signature of the budget holder and six instances where no supporting documentation was attached on SAP.

A central record is maintained for all staff with Delegated Procurement Authority but no such repository exists for Delegated Financial Authority resulting in an over reliance on SAP Roles to fulfil this function. In most instances this does not appear to be an issue as SAP Role holders are Band 4 or above. However, in one instance a Band 1 colleague has substitution approver rights and approved a PO for over £100K. |

Business risk impact
Lack of documented approval increases the risk of unauthorised expenditure, fraud and financial loss.

Management action(s)			
#	Action	Owner	Due
5.	P&SC to consider developing a system based workflow for approving key documents – purchase requisition, contract award recommendation, budget approval etc.	Jonathan Patrick, Chief Procurement Officer	28/02/2022
6.	P&SC to work with Finance to improve guidance on Delegated Financial Authority, Project Authority and the Standing Orders, ensuring authorities are documented and aligned to SAP Roles.	Jonathan Patrick, Chief Procurement Officer	28/02/2022
7.	P&SC to advocate that the system used to manage DPA is adapted and used to manage DFA across TfL.	Jonathan Patrick, Chief Procurement Officer	31/10/2021

Definition of findings and Overall conclusion categories

Finding	Indicative Business Impact of Control Weakness (Linked to Enterprise Risk Assessment Matrix (ERAM))	ERAM
High	Severe weaknesses in key business controls	Very High / High
Medium	Moderate weaknesses in key business controls	Medium
Low	Minor weaknesses in key business controls	Low / Very Low

	Overall conclusion categories
Conclusion	Description
Well Controlled	There is no cause for concern. • There is a sound system of internal control designed to meet the organisation's objectives; • Controls are consistently applied in all areas reviewed; • Assurance mechanisms are effective, and would identify any reduction in internal control to ensure action is taken to maintain risk within acceptable tolerances.
Adequately Controlled	There is no cause for concern. • There is generally a sound system of internal control designed to meet the organisation's objectives; • Controls are generally applied consistently, however, minor weaknesses in the design or the inconsistent application of controls may put the achievement of a particular objective at risk; • Assurance mechanisms are effective/ partially effective, and should identify reduction in internal control to maintain risk within acceptable tolerances.
Requires Improvement	There is some cause for concern. • Weaknesses in the design, and/ or the inconsistent application of internal controls put the achievement of the organisation's objectives at risk • Assurance mechanisms, do not exist or are partially effective/ ineffective, and may fail to identify reduction in internal control to maintain risk within acceptable tolerances.
Poorly Controlled	There is serious cause for concern. • Fundamental weakness in the control design and/ or consistent non-compliance with control requirements could result/ has resulted in failure to achieve the organisation's objectives in the area reviewed • Assurance mechanisms do not exist/ have failed to identify reduction in internal control to maintain risk within acceptable tolerances.

Distribution list

This report was sent to Simon Kilonback, Chief Finance Officer by Mushtaq Ali, Interim Head of Internal Audit, and copied to:

Name	Title
Jonathan Patrick	Chief Procurement Officer
Matthew Dreissen	Head of Procurement
Marcus Denton	Head of Procurement
Andy Lord	Managing Director, LU
Rachel McLean	Chief Financial Officer - Crossrail
Antony King	Group Finance Director
Emma Lucas	Chief of Staff – CFO
Michele Abod	PA to Group Finance Director
David Jones	Deputy to the Chief Procurement Officer
Philip Hewson	Head of Procurement – Strategy & Performance
Pritesh Shah	Head of Procurement Transformation
Paul Mason	Head of Treasury and Group Insurance
Andrea Clarke	Director of TfL Legal
Clive Walker	Director of Risk and Assurance
Howard Carter	General Counsel
Nico Lategan	Head of Enterprise Risk
Richard Mullings	Head of Counter-Fraud and Corruption
███████	EY