



**Ministry of Transport**  
Contracting and Payments Controls Review

October 2016

# Contents

Executive Summary	1
Detailed Findings	4
1. Contracting Process	5
2. Supplier Maintenance and Payments Processing	12
APPENDIX 1 Objectives, Scope and Approach	18
APPENDIX 2 Statement of Responsibility	20

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# Executive Summary

## Introduction and Objectives

Following both a recently completed forensic investigation into the conduct of a senior employee, coupled with the findings of Audit New Zealand's interim audit of the Ministry in April 2016, the Ministry of Transport ("Ministry") engaged Deloitte to undertake a review of its contracting and payments processes.

The purpose of this review was to independently assess the Ministry's current contracting and payments processes for both alignment with good practice and compliance with already documented policies and procedures. In assessing alignment with good practice we considered our experience of good practice that is already applied in other public sector organisations. This review considers the control environment in these specific areas but does not extend to, or comment on, the control environment in other financial and operational areas.

Our independent review was undertaken in accordance with the objectives and scope that are set out in Appendix 1 to this report. We also draw your attention to the Statement of Responsibility provided in Appendix 2.

## Our Key Findings and Recommendations

The Ministry takes compliance seriously. The Ministry utilises an annual compliance survey that is completed by managers and budget holders to reinforce the Ministry's compliance culture. The Ministry has also been proactive in enhancing controls. This has included:

- Introducing a second approver for invoices to certify that goods and services have actually been received
- A series of communications to staff providing information on policy and processes, and emphasising the need for compliance.

There is further opportunity to strengthen the Ministry's compliance with established policies and expected practices, in particular, its contract approval and monitoring processes, noting that the control environment over processing of invoices and payments have most of the elements of good practice.

A number of the recommendations within this report have already been implemented by the Ministry since our draft findings were provided.

Our findings have been set out under two broad areas:

### **Contract Approval and Filing Processes**

The Ministry has a documented Procurement Policy which is detailed and thorough, elements of which are consistent with good practice and support the control environment around contracting processes.

Overall, there is an opportunity to further strengthen the control environment in respect to contract approvals to align with good practice and ensure effective compliance. Weaknesses were identified around missing or

incomplete contracts (one missing contract and a contract that was not signed by the supplier), missing contract sign-off sheets, and due diligence on new supplier information. The approval of a small number of contracts was found to be inconsistent with the Ministry's own financial delegations. One potential cause is that personnel may have been in acting roles, but we found no supporting documentation for this. Key areas where we recommend focus is needed to improve compliance:

- **Review of contracts or variations:**

The established review and approval process for signing new contracts is not always followed. In our testing, we identified instances where the contract sign-off sheets were missing or incomplete, and where the person who signed the contract did not have sufficient financial delegation to do so. Our recommendations include Legal providing draft contracts in a non-editable format with a "draft" watermark, and not issuing the final contract until the contract sign-off sheet has been satisfactorily signed by the appropriate parties. We also recommend an internal communication campaign reinforcing the Ministry's contracting policy and process expectations to relevant staff.

- **New supplier checks:**

Additional new supplier checks should be undertaken in addition to checking details to the Companies Office website that Legal currently performs. This could include for example: obtaining evidence of the supplier's physical address; and background and reference checks, particularly for individuals. This would provide more confidence that only suitable and legitimate suppliers are contracted with. How potential conflicts of interest are identified and managed as part of selecting a new supplier should also be clearly documented.

- **Recording and filing contract documentation:**

The contracts database does not provide a complete and accurate account of all Ministry contracts. This impacts the Ministry's ability to manage and report on contract related information. We recommend enhancements to the process, including updating the contracts database once the Drafting Instructions document has been both received and reviewed by Legal, then also ensuring the contract sign-off sheet is received before the final contract is issued.

- **Monitoring and reporting of contract expenditure:**

There is no Ministry-wide reporting on its contract spend. Expenditure is instead reported at a project level, on a monthly basis to cost-centre managers. This compares budget against actual costs.

## **Invoice and Payments Processing**

We have concluded that the control environment around the Ministry's processing of invoices and payments have most of the elements of good practice. The practices followed were also consistent with documented policies and procedures. We have however identified some further opportunities to strengthen processes including:

- **Separation of duties:**

To support the manual separation of duties, the roles within the finance system (SUN) should be separated so that the system does not allow the processing of a transaction without a second person's approval. We also recommend the tasks of preparing payment transactions should be separated from preparing the payment file (i.e. extracting from the finance system and uploading to the banking platform).

- **Payment file access:**

In order to process a payment, the finance system generates a file for uploading into Westpac Corporate Online. This upload file is saved on a shared drive. The information on this file is confidential and it is critical that it cannot be modified after approval is given. Access to the file should be restricted to prevent any manipulation prior to uploading.

- **Changes to supplier data:**

Correct maintenance and management of supplier information within finance systems is an important step to prevent error and fraud. Any inappropriate or unauthorised changes to static supplier information (such as bank account numbers) could lead to fraud. We recommend that any change to bank account details should require a supporting bank deposit slip / statement that is matched against the vendor's invoice.

## Use of Report

We have prepared this report solely for the use of the Ministry of Transport. The report contains constructive suggestions to improve some practices which we identified in the course of our review that required attention. The procedures we performed are designed to identify control weaknesses but cannot be relied upon to identify all weaknesses.

Recommendations made in this report are not intended to be recommendations of good practice for other organisations and have been made based on the assessed risks and related supporting processes of the Ministry of Transport only.

Our assessments are based on observations from our review undertaken in the time allocated. Assessments made by our team are matched against our expectations and good practice. This includes comparison with other similar processes we have assessed.

This report offers recommendations for improvements and has taken into account the views of management, with whom these matters have been discussed.

## Acknowledgement

We take this opportunity to thank the Ministry of Transport's Finance and Legal team for their assistance during the course of the review.

# Detailed Findings

This section summarises our overall findings and recommendations under two separate headings:

- Contracting processes
- Supplier maintenance and payments processing.

The following rating system has been used to help the Ministry prioritise the findings and associated recommendations. We have provided each finding with a rating (High, Medium and Low) to assist the Ministry move towards good practice.

Good practice recommendations are areas which, if implemented, would help provide management with reasonable assurance (but not absolute assurance) that transactions are free from error or fraud.

Where relevant we have also identified best practice recommendations for the Ministry. Best practice recommendations have been specifically highlighted. Best practice recommendations are generally considered as opportunities to increase efficiencies or to move processes to leading practice.

Priority Rating	Definition
<b>High</b>	Recommends management attention and referral to the Ministry's Leadership Team for resolution within 3 months.
<b>Medium</b>	Recommends the attention of business unit management for resolution within 3-6 months.
<b>Low</b>	Recommends the attention of business unit management for consideration within the next 12 months.

## 1. Contracting Process

The Ministry's Procurement Policy captures the Ministry's expectations and process for contracting with external suppliers that provide goods or services to the Ministry. This applies to the purchase of goods greater than \$5,000 and services greater \$3,000. Our testing of compliance to this policy focused on contract approval and filing. We found improvements are required in both these areas and in that regard we have made recommendations to enhance compliance and align processes to good practice.

A diagram of the updated proposed contracting process is provided in Figure 1 (page 11). This captures our key recommendations as well as how the overall process will work after the changes are made.

### 1.1 - Review and approval of contracts and contract variations.

#### HIGH PRIORITY

##### Finding

The contract sign-off sheet is the Ministry's key process step to ensure that the contract (and any subsequent variations) have been both adequately reviewed and approved by the appropriate personnel. Completion of this sign-off sheet also provides a way to make sure staff accountable for the contract have followed the Procurement Policy, that the Ministry has sufficient budget to undertake the contract, and that it has been legally reviewed.

However, as part of our compliance testing we found the following:

- A contract sign-off sheet was not always present on file. Out of a sample of 25 contracts we reviewed over the last 12 months, seven contract sign-off sheets (or 28%) were not present on file
- We found two contract sign-off sheets (out of 18) with missing signatures
- One contract could not be located (out of a sample of 25)
- One contract which was signed by the Ministry but not the supplier (out of 24)
- There were two instances (out of 24) where the contract was for a multi-year period and was not signed by the Chief Executive in accordance with the Financial Delegations Policy. In addition, there were two other contracts that were signed by people with insufficient financial delegations. One potential cause is that personnel may have been in acting roles, but we again found no documentation to support this even if it were the case.

In addition, we highlighted two (out of 18) contract sign-off sheets where the Contract Manager and Ministry signatory were the same person. This creates a risk of contracts being approved without a second person review. This potentially could lead to fraud or error. Based on discussions with Ministry staff, we also understand that draft contracts prepared by Legal may be subject to minor adjustments or variations by the contracting parties without further consultation with Legal.

Without adequate review and approval of contracts and compliance with the Ministry's Procurement Policy, there is a risk of legal, financial and fraud risk exposures.

## Recommendations

We recommend changes to the contracting process to help prevent the issues identified above from reoccurring. A suggested re-design of the process is set out in Figure 1 (page 11).

Specifically, in relation to the contract review and approval process we recommend:

- Process steps be implemented to help ensure the contract sign-off process is not circumvented. Legal could watermark their draft contracts as "draft" and supply the draft version in PDF format to prevent tampering. Legal should not issue the final contract until the contract sign-off sheet has been satisfactorily signed by the required parties without outstanding conditions (refer to Phase 1 of Figure 1). This recommendation was implemented during our review
- Additional monitoring controls are implemented to ensure all contracts are only signed by an appropriate Ministry signatory (within delegations) and are then subsequently filed for safe keeping (further commented on in section 1.6)
- Where a contract or contract sign-off sheet is approved on behalf of another manager, the Ministry should retain all relevant documentation that supports the decision that was made
- The Ministry contract signatory should always be different to the contract manager to provide additional visibility of contracts being entered into (refer to Phases 2 and 3 of Figure 1) **[Best Practice]**. This recommendation was implemented during our review
- Contracting policy and process expectations need to be reinforced to all relevant staff through regular and ongoing communications and / or training (we note there has been recent communications to emphasise the need for compliance)

## 1.2 - New supplier checks and conflicts of interest management.

### MEDIUM PRIORITY

#### Finding

Apart from a Company Office registry number being noted on the contract, there is no documentation of the checks undertaken on a new supplier to confirm information is valid, appropriate and the supplier exists. We understand that no checking is done for individuals (i.e. independent contractors) that the Ministry contracts with or for entities that successfully tendered for contracts.

We found no documentation to support how conflicts of interests are identified and managed as part of contracting activities.

We recommend that additional new supplier checks are undertaken in addition to checking the Companies Office website (which Legal currently performs). This would provide management with more confidence that only suitable and legitimate suppliers are contracted with.



## Recommendations

We recommend that:

- The Ministry documents (on the Ministry's Drafting Instructions document) the checks that were undertaken on new suppliers and also how conflicts of interests are identified and managed when selecting suppliers. The document should be submitted to Legal for review. Legal should ascertain the reasonableness of the checks undertaken for new suppliers
- Implement background checks for individual contractors and unincorporated businesses to ascertain their legitimacy and ability to deliver the goods and services
- The Ministry develops some guidance on the nature and type of checking expected on new suppliers (refer to Phase 1 of Figure 1). This could be supported by a checklist of activities that include (for example):
  - Matching the information supplied by the vendor to the information held by the Companies Office (which is already being done)
  - Calling the vendor to verify the details provided
  - Performing an internet search on the vendor
  - Reviewing the vendor's website
  - Obtaining evidence of the vendor's physical address
  - Background and reference check, particularly for individuals
  - For tendered contracts, some form of verifying the details supplied by the tenderer before entering into a contract.

NB. Although each of these checks may not necessarily detect error or fraud, cumulatively these checks increase the likelihood of identifying such risks.

### 1.3 - Recording and filing contract information and documentation.

#### MEDIUM PRIORITY

##### Finding

The Ministry's contracts database does not provide a complete and accurate account of all Ministry contracts. The following reasons were identified:

- The purpose of the Drafting Instructions document is to provide Legal the information they need to draft a contract, as well as to provide the required information for the contracts database. However we found that the Drafting Instructions document was not always used by Ministry staff, and if it was, the information on occasions was incomplete (supplier-form contracts are excluded, as these do not require drafting instructions)
- Where the Drafting Instructions are incomplete, updating the contracts database could not be done until a final contract was received, due to the "mandatory field" requirements of the database. If it was never received it would not be able to be updated. The contracts database should be updated to include all contracts that have been issued with a contract number or are in draft form
- Contracts (and any contract variations) are not in practice always digitally and physically filed, or filing may be delayed. Contracts and variations should be filed physically and digitally once sign-off has been received.

The current process for updating the contracts database limits to an extent the Ministry's ability to manage and accurately report on contract-related information (refer also to section 1.6 regarding monitoring and reporting).

This observation is also supported by the findings from our compliance testing (refer to 1.1) in relation to missing contracts and contract sign-off sheets.

### Recommendations

We recommend that:

- The contracts database must be updated when the Drafting Instructions document has been completed by the contract manager, and issued with a contract number by Legal
- We recommend the responsibility for reviewing the contract and contract sign-off sheet should rest with a person (potentially a senior person in Legal) with the dedicated time and sufficient authority. That person would need to satisfy themselves that the sign-off is both appropriate and compliant with Ministry policy prior to issuing the final contract (refer to Phases 1 & 4 in Figure 1).

### 1.4 - Monitoring and reporting of contract expenditure.

#### MEDIUM PRIORITY

##### Finding

There is no Ministry-wide reporting on contract spend. Expenditure is instead reported at a project level on a monthly basis to cost-centre managers, which compares budget against actual costs.

The Ministry's contracts database and finance system (SUN), at the moment, does not have the ability to report expenditure by contract. Contract expenditure is recorded by project and by cost centre within SUN. No contract coding is required and there is no field dedicated for recording contract numbers.

However, the Ministry has recently begun recording the contract number in the description field of SUN when inputting invoice details for payment purposes.

Without the ability to easily record and report expenditure by contract, the Ministry has limited visibility and oversight to monitor the financial performance of contracts and the associated expenditure. There is also a risk that any expenditure incurred, over the original contracted amount, is not detected in a timely manner.

##### Recommendation

We recommend contract managers begin to report to senior management and the Ministry on their contracts and contract spend.

This should include the vendor name, the contract/s and cumulative expenditure.

To facilitate this, Finance could consider implementing a contract code or method for obtaining payment information at a contract level. For example,

creating a separate field for entering contract numbers within the finance system would help.

### 1.5 - Centralise contract information and efficiency.

#### LOW PRIORITY

##### Finding

Contract and supplier information resides in multiple systems within the Ministry which results in data duplication and redundancy particularly between the contracts register and the contracts database. For example, both the contracts register and database contains the contract number, project manager, procurement title, supplier name, start date, as well as the Government Electronic Tendering System number.

The suggested contracting process set out below in Figure 1 involves the continued use of the current information system and documents, however ideally information would be further centralised and require minimal information duplication.

##### Recommendations

We recommend:

- Developing databases that would help streamline the contracting process and centralise information. For example, enabling contract managers / procurers to input contract information (e.g. the information contained in the Ministry's Drafting Instructions) and submit this for review by Legal. Once reviewed by Legal, the contract status would be updated from "pending" to "draft". It is not until the final contract has been created and signed off that the status would be marked as "final" in the database [**Best Practice**]
- If the information contained in the register can be captured in the contracts database, the Ministry should consider whether the Contract Register is still needed to avoid information duplication and inefficiencies [**Best Practice**].

### 1.6 - Ensuring contracts are in place prior to work commencing.

#### LOW PRIORITY

##### Finding

There is currently no process in place to ensure contracts have undergone adequate review and sign-off prior to the supplier commencing work and submitting an invoice for payment. This limits the Ministry's ability to ensure contract managers are meeting Procurement Policy requirements and only approving payments where an approved contract is in place.

This observation was also supported by some of our compliance testing results (we found one instance (out of 43) where an invoice was dated earlier than the contract start date and signature date).

Although Figure 1 is the suggested process, designed to help prevent work commencing prior to the contract start date, the Ministry could also implement further controls that help detect where work commences prior to a contract being put into place.

### Recommendation

We recommend the Ministry consider implementing a monthly report generated by the contracts database that searches contracts with the status "draft" matched with the commencement date (either started or will start within two weeks for example). This report would present a view of draft contracts requiring attention and can be provided with the monthly project / contract expenditure report (discussed in section 1.4).

By looking at the two reports together, the Ministry will be able to identify any payments made to suppliers where there is no final approved contract **[Best Practice]**.

## 1.7 - Procurement Policy and Financial Delegation Policy.

### LOW PRIORITY

#### Finding

The Procurement Policy is both detailed and thorough. We however identified the following minor areas to further enhance the Procurement Policy document:

- The treatment of independent contractors (i.e. contractors that operate as sole agents rather than being part of a company) can be more clear and explicit in the Procurement Policy and Financial Delegations Policy
- We also observed that the current contract process flow chart at the back of the Procurement Policy document needs to be updated to reflect the actual expected process. For example, under part 2, process 7, it refers to "obtain purchase order", however the Ministry does not have a purchase order process / system.

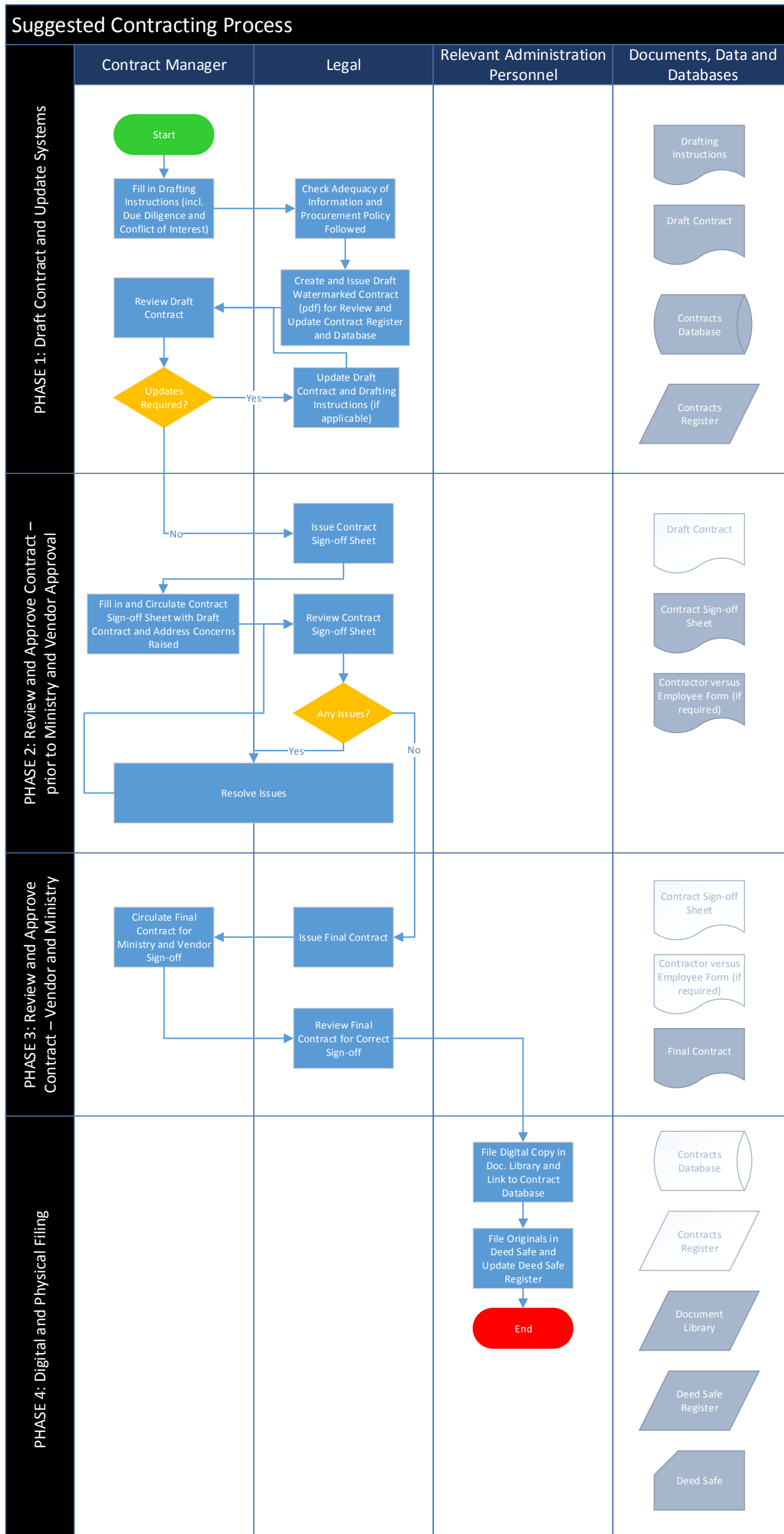
#### Recommendations

We recommend:

- Updating the contract process flow chart within the Procurement Policy so it helps users better navigate around the Policy and the specific activities required at different dollar thresholds of purchasing. The process flow should be placed at the beginning of the Procurement Policy with clear references to sections within the Policy **[Best Practice]**
- Being explicit in the Procurement Policy that independent contractors are within the scope and draw a distinction between what is covered by HR and recruitment through recruitment agencies versus the Ministry directly sourcing an independent contractor **[Best Practice]**
- Update the Financial Delegations Policy so it is clear what delegations apply in relation to hiring independent contractors **[Best Practice]**.

The following diagram summarises the proposed contracting process and captures the key recommendations above.

Figure 1 – Suggested Contracting Process



## 2. Supplier Maintenance and Payments

### Processing

The Ministry's Accounts Payable process is clear and there is separation of key activities to reduce the potential for error or fraud (i.e., those that prepare records versus those that review and authorise them).

We also observed new process steps that have been implemented that enhance this (such as a second approver of invoices to certify that goods and / or services have been received, as well as supplier invoices referencing the related contract number to facilitate the checking of invoices against contracts).

We tested compliance with the Ministry's documented policies and procedures in the following areas:

- Invoice approval
- Payment run and batch approval
- Review of changes to supplier master data.

We found actual practice to be largely consistent with these policies and procedures.

We did note in our testing of batch payments one instance (out of 15) where the approver field on the batch payment approval sheet was not signed by the approver – thereby indicating their checking and approval. This appeared to be a one-off oversight.

We set out a suggested process that reflects the recommendations below in Figure 3 (page 17), which covers invoice and payments processing as well as the management of supplier information within the finance system. The recommendations aim to further strengthen the design of the Ministry's systems to prevent fraud or error.

#### 2.1 - Separation of duties.

#### MEDIUM PRIORITY

##### Finding

Separation (or segregation) of duties is a phrase that means organisations establish processes and procedures that involve more than one person being able to complete a full cycle of a transaction. It is a key step in risk mitigation.

By involving multiple individuals in one transaction cycle, there is protection for the entity and employees from potential error and fraud. Involving two or more people prevents one person from gaining complete control over a single process thereby reducing the opportunity for fraud and error.

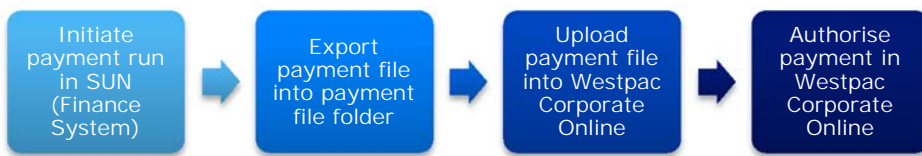
While the Ministry has a clear manual process that separates the preparer / reviewer activities (i.e. preparing and reviewing payments and updating supplier information), this separation has not been implemented within the main finance system (SUN). Although the manual process requires the

separation of these duties, the main finance system (where this processing occurs) does not prevent one individual from performing all activities.

We also understand that the Accounts Payable personnel inputting payment transactions into the finance system SUN also have the responsibility of extracting the payment file from SUN and uploading it into Westpac Corporate Online, the Ministry's banking platform. This increases the risk of unauthorised / fraudulent payments since the payment file contains the source data used to make payments to suppliers.

Figure 2 below outlines the payment extract and upload process.

**Figure 2 – Payment File Extract and Upload Process**



### Recommendation

We recommend:

- To support the manual separation of duties, the roles within the finance system (SUN) should be separated so that the system does not process a transaction without a second person's approval
- The tasks of preparing payment transactions and preparing the payment file (i.e. extracting from the finance system and uploading to the banking platform) should be separated. As a suggestion, this task could be allocated to the Finance Accountant (see Figure 3), as the Finance Accountant administers Westpac Corporate Online.

### 2.2 - Payment file access.

#### MEDIUM PRIORITY

#### Finding

In order to process a payment, the Ministry's finance system generates a file for uploading into Westpac Corporate Online. This upload file contains details (bank account numbers, amounts etc.) and is saved on a shared drive at the Ministry. Good practice is for the location of this file to have restricted access, as any inappropriate changes (e.g. to bank account details) could lead to fraudulent payments.

At the Ministry, this payment file can be accessed by members not involved in / responsible for uploading the file into Westpac. In particular, the user group 'Accounts' all have the ability / permission to 'modify' the payment file and the user group 'User' has the permission to 'read & execute' the payment file. The current permissions increase the risk of manipulation to the payment file.

## Recommendation

We recommend that:

- The file permissions are reviewed and restricting access to only those responsible for uploading the payment file to the banking platform
- The ability to modify the payment file is disabled since any changes should only be made through the finance system (SUN), and never via the generated file.

### 2.3 - Vendor (supplier) master data changes.

#### MEDIUM PRIORITY

##### Finding

Currently the Ministry's Finance team requires an invoice and email / written evidence as supporting documentation to authorise changes to supplier information. However, these forms of documentation can be easily forged and lead to fraud or payments to the incorrect bank account.

The appropriate maintenance and management of supplier information within finance systems is important to prevent error and fraud. Any inappropriate changes to static supplier information (such as bank account numbers) could lead to fraud. When making changes, changes should be supported by documentation that is less likely to be forged.

##### Recommendations

We recommend:

- When inputting or changing bank account details, the change should be supported by a bank deposit slip / statement and matched against the vendor's invoice. Finance could also call the supplier to confirm (in person) the information provided is accurate, particularly if there are any inconsistencies that need to be resolved. They should not rely on emails
- When setting up a new vendor, Finance to see the (digitally filed) signed contract and contract sign-off sheet in the contracts database to confirm that there is a valid contract [**Best Practice**].

### 2.4 - Invoice approval and training / awareness.

#### MEDIUM PRIORITY

##### Finding

Since the issues identified by a Deloitte Forensic investigation (and by Audit New Zealand in their interim audit of the Ministry in April 2016) the Ministry has implemented a number of additional process steps including:

- Until recently the Ministry required one authoriser to approve each invoice prior to it being processed for payment. The Ministry has since implemented a second authoriser for each invoice. Our compliance testing however noted that this new process step has not always been followed since being implemented (2 invoices out of a sample of 25 tested had no second authoriser)



- Accounts Payable personnel who receive the invoices now check that there is a contract number noted on the invoice. Finance has also been requesting current suppliers to note the contract number on their invoices going forward to help reference invoices back to contracts.

In our opinion these changes alone are not sufficient to prevent payments being made to non-existent, fraudulent, expired, or unapproved contracts. We recommend the additional checks and activities below be implemented to further strengthen the process and compliance.

### Recommendation

We recommend:

- Invoice authorisers check the contracts database to ensure the contract is still current (or a valid contract exists) when approving invoices for payment. Authorisers should also be satisfied that the goods and services have been received by obtaining the necessary evidence if they are not working closely with the vendor. As the Ministry is in the process of implementing an automated invoicing process, we suggest covering this requirement during training to authorisers and those involved in the accounts payable process as part of the implementation
- Running fraud awareness training for all approvers, and preferably other staff (e.g. understanding what features to look out for on an invoice and ensuring it meets the criteria for approval). Not only does improved awareness enable staff to be more effective at identifying risks and concerns, it also reinforces the organisational culture that these issues are taken seriously [**Best Practice**].

## 2.5 - Bank payment hash total check.

### LOW PRIORITY

#### Finding

Hash totals are used to help identify where changes have been made to bank payment files (either through fraud or error). It provides an additional means to check for any manipulation of the file prior to processing the payment. Hash totals are automatically calculated when payment files are generated and are calculated by totalling the fields within the file, including fields not used in calculations (e.g. bank account numbers).

SUN and Westpac Corporate Online both allow the use of hash totals; however they are not being used as means to check if any changes have been made to the file prior to payment (via upload into Westpac).

Given the weaknesses identified around the separation of roles / duties within SUN (refer to finding 2.1) we consider it would be beneficial for the Ministry to implement a check of hash totals as part of payments processing.

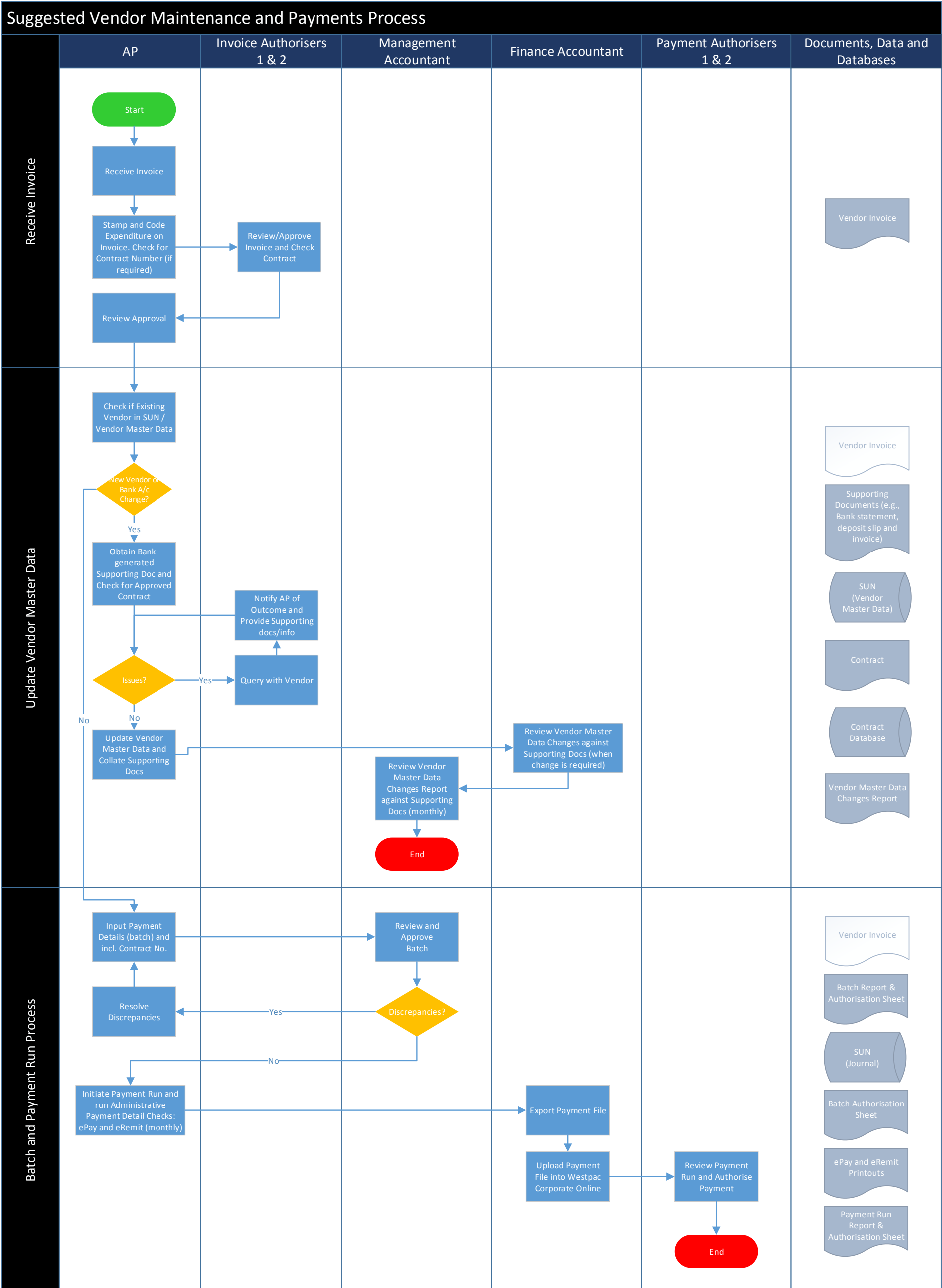
### Recommendation

We recommend the Ministry consider enabling hash totals within SUN and Westpac Corporate Online. The two payment authorisers should check that the hash totals match between SUN and Westpac. If the hash totals do not match, Finance should investigate what change took place to the payment

file, the reason for the change, and whether it was appropriate **[Best Practice]**.

A suggested process that reflects the recommendations above is provided below in Figure 3:

Figure 3 – Suggested Vendor (Supplier) Master Data Maintenance and Payments Process



# APPENDIX 1

## Objectives, Scope and Approach

### Objectives

The objectives of the review were to:

- Determine the extent to which contracting and payment controls are adequately designed to mitigate risks (error and fraud) and represent good practice
- Assess the overall level of compliance with documented contract and payment policies and procedures.

### Scope

The review covered relevant documented policies, processes and practices (both current and proposed) associated with the following end to end processes and controls:

- Contract initiation, review, approval and sign-off (including contracts with independent contractors, procurement of resources through recruitment agencies and contracts for goods and services)
- Vendor selection, set up, validation and change controls
- Invoice processing, review and approval including validation of contracted work
- Payment processing
- Contracts register
- Management oversight of contracts
- Monitoring of the expiry of contracts
- Monitoring of expenditure against original contracted budgets.

Compliance testing focused on the period 1 July 2015 to 30 June 2016 and was based on the policies and procedures in place at the time of the sampled transaction or event. Testing focused on key controls in the following areas and was not a full assessment of every documented policy and procedure requirement:

- Contract approval and filing
- Invoice approval
- Payment run and batch approval
- Review of changes to vendor master data.

Emphasis was placed on contracts that involved purchasing of goods greater than \$5,000 or services greater than \$3,000 since these contracts are subject to further review and approval by the Ministry (as required in the Ministry's Procurement Policy).

The review excluded:

- Value for money processes and controls
- Assessing alignment of procurement activities, and contract management activities to good practice (other than the specific elements noted as in-scope above)
- Undertaking a fraud risk assessment
- Assessing the management of conflicts of interest
- Writing or amending policy or procedure documents.

### **Approach**

Key features of the approach included:

- Obtaining and reviewing relevant in scope documented policies, procedures, and guidance
- Interviewing the external auditors to further understand control issues identified as part of their interim audit
- Walkthroughs of the end to end process for the in-scope areas with Finance staff by selecting relevant illustrative examples to understand the process
- Undertaking a process level risk assessment to identify key process risks associated with the in scope areas
- Considering whether the design of existing and proposed controls are adequate to mitigate those risks and are consistent with good practice and nature and scale of the Ministry
- Undertake testing of specific key controls to determine the level of control effectiveness based on a sample of contracts and payments
- Identifying key areas for improvement
- Discussing preliminary findings with the Ministry.

# APPENDIX 2 Statement of Responsibility

Our findings are based on observations from our assessment undertaken in the time allocated. Any assessments made by our team are matched against our expectations and good practice guidelines.

The scope of our work was designed to provide recommendations to improve internal controls relating to contracting and payments specifically in accordance with our Consultancy Services Order signed on 31 May 2016. The procedures that we performed did not constitute an assurance engagement in accordance with New Zealand Standards for Assurance Engagements, nor do they represent any form of audit under New Zealand Standards on Auditing, and consequently, no assurance or audit opinion is provided.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed are on a sample basis.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.

This report has been prepared for distribution to the Ministry of Transport. We disclaim any assumption of responsibility for any reliance on this report to any other persons or users, or for any purpose other than that for which it was prepared.

Suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.



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