

# Final Internal Audit Report

## Housing Repairs

### June 2019

**Distribution:**

- Executive Director of Place (final only)
- Executive Director of Gateway, Strategy & Engagement (final only)
- Director of Council Homes, Districts and Regeneration
- Director of Housing Assessment and Solutions
- Head of Responsive Repairs
- Head of Incomes and Lettings
- Project Development Manager
- Repairs Technical Manager

Assurance Level	Issues Identified	
<b>Limited Assurance</b>	Priority 1	1
	Priority 2	1
	Priority 3	0

**Confidentiality and Disclosure Clause**

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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## 1. Introduction

- 1.1 The Council has a partnering contract with Axis Europe plc for the repair and maintenance of its housing stock. These repair jobs are recorded on the Uniclass system application and are owned and managed by Axis Europe. However, other contractors are also used where appropriate.
- 1.2 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

## 2. Key Issues

### Priority 1 Issue

8 of the 35 weekly payment files for 2018/19 transferred from OHMS to Accounts Payable had been processed and checked by the same person, **(Issue 2)**.

### Priority 2 Issue

Examination of a sample of five AXIS invoices, established these were not sufficiently detailed in line with HMRC VAT Invoice requirements, **(Issue 1)**.

**3. Actions and Key Findings/Rationale**

<b>Control Area 2: Processing and Payment of Invoices</b>		<b>Detailed Finding/Rationale – Issue 1</b>
<b>Priority</b>	<b>Action Proposed by Management</b>	
<b>2</b>	The invoices in question are sent by our repairs contractor Axis Europe. We have contacted their finance team and instructed that going forward invoices now need to show a full description of what the payment relates to. This will be actioned by them immediately.	<p>The 'Invoicing and Taking Payments From Customers' section of the HMRC website &lt;<a href="https://www.gov.uk/invoicing-and-taking-payment-from-customers/invoices-what-they-must-include">https://www.gov.uk/invoicing-and-taking-payment-from-customers/invoices-what-they-must-include</a>&gt; states that a supplier's invoice, in order to be valid of VAT purposes, must include:</p> <ul style="list-style-type: none"> <li>- A unique identification number</li> <li>- The Company name and the address of the customer receiving the invoice</li> <li>- A clear description of what the supplier is charging for</li> <li>- The date the goods or services were provided (supply date)</li> <li>- The date of the invoice</li> <li>- The amount(s) being charged</li> <li>- VAT amount if applicable</li> <li>- The total amount owed</li> </ul> <p>Examination of the invoices for a sample of ten different jobs on OHMs established that five of these, all from AXIS, were not sufficiently detailed. For example the narration on one invoice simply detailed, '13.04.18 WEEK 3'.</p> <p><b>Risk</b> Where invoices, which include VAT, do not properly comply with HMRC requirements, there is a risk that these invoices are not valid VAT invoices and that the Council is not able to reclaim the VAT paid on these.</p>
<b>Responsible officer</b>	<b>Deadline</b>	
Project Development Manager	Immediately	

**Control Area 2: Processing and Payment of Invoices**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
1	<p>It was found that the same individual authorised both the transmission of files and validated the information on the File Transfer Log</p> <p>In each of these instances one of the transaction services officers were on leave.</p> <p>Under these circumstances an operational manager will now check &amp; validate the transaction.</p>	<p>Weekly payment files are transferred from OHMS to Accounts Payable. A 'File Transfer' log is maintained to record and monitor these, which details the total number of orders and the value of these exported and if any are rejected. In order to help ensure that errors do not occur and to help prevent inappropriate files being processed, separate staff are required to conduct the import and check then check these.</p> <p>Examination of the 'File Transfer' log for 2018/19 established that, of the 35 weeks of active file transmission, eight of these weeks evidenced that the same person conducted the import and then subsequently checked it. The total value of the transactions in the files varied from £66,872.58 to £1,200,543.75).</p> <p>It was explained that there were only two staff available that were able to conduct the import or check it and that when one of these staff was on leave, they had no option other than for the same person to conduct the import and then subsequently check it.</p> <p>Where the same individual authorises both the transmission of files and validates the information on the File Transfer Log, there is a risk of inappropriate file transmission, or mistake, which could go undetected if an independent check is not conducted.</p>
<b>Responsible officer</b>	<b>Deadline</b>	
Head of Incomes and Lettings	Immediately	

## TERMS OF REFERENCE

### Housing Repairs

#### 1. INTRODUCTION

- 1.1 The Council has a partnering contract with Axis Europe plc for the repair and maintenance of its housing stock. These repair jobs are recorded on the Uniclass system application and are owned and managed by Axis Europe. However, other contractors are also used where appropriate.
- 1.2 This audit will focus on all other contractors used, as the partnering contract with Axis Europe is subject to a separate open book accounting audit.
- 1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

#### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls; and
  - Report on these accordingly.

#### 3. SCOPE





- 3.1 This audit examined the Council's arrangements for the following areas relating to Housing Repairs and number of issues identified:

Control Areas/Risks	Issues identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	0	0
Supplier Set-up	0	0	0
Processing and Payment of Invoices	1	1	0
Budgetary Control	0	0	0
Contract Performance Monitoring	0	0	0

## DEFINITIONS FOR AUDIT OPINIONS AND ISSUES IDENTIFIED

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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