

Final Internal Audit Report

Croydon Equipment Solutions (CES) - Banking Compliance

May 2024

Distribution: Corporate Director Adult Social Care & Health (DASS
and Caldicott Guardian)

Interim Director of Adult Social Care Commissioning,
Policy and Improvement

Head of Croydon Equipment Service

Director of Finance (Deputy S151 Officer)

Corporate Director of Resources and S151 Officer (Final
only)

Assurance Level	Issues Identified	
Substantial Assurance	Priority 1	0
	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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

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 Croydon Equipment Solutions (CES) provides community equipment to 'support care in a home setting'. Since its establishment in December 2016, it has become an 'Integrated Procurement Hub' enabling other local authorities to procure, manage, deliver, collect and re-cycle such equipment.
- 1.2 CES was formerly a wholly owned Local Authority Trading Company (LATC) but was brought back in house at the end of 2016. Although now part of the London borough of Croydon (the 'Council'), it still operates its own separate financial systems and pays its suppliers directly using BACs.
- 1.3 An ad hoc internal audit in 2017 of the BACS process operated at CES found that BACS files could be amended before being uploaded into Bankline. This issue was still unresolved when the subsequent audit of CES was conducted in January 2020. A review of the sample of ten monthly BACS uploads between 2017 and 2022 showed that there were proper approvals on the PDF BACS file that act as a control to prevent upload of any amended or unauthorised BACS.
- 1.4 While our review and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.5 The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issue

Priority 2 Issue

One of the users detailed in the Supplier Audit Report as making supplier changes was 'CPIO' which is a generic role and not defined within the system user access rights. Two other generic roles were also identified, although these had not made any supplier changes. **(Issue 1)**

3. Actions and Key Findings/Rationale

Control Area: Access Rights

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
2	<p>The Finance and Procurement Team Overview, Outline of Procure to Pay Processes guidelines was correct as at August 2022 when it was issued. The structure had a Finance Operations Manager, Assistant Manager Finance Operations and two Finance Officers. In September 2022, one of the Finance Officers was promoted to a Senior Finance Officer.</p> <p>The supplier audit report run on 9 August 2022 included one change from user “CPIO”, which was a test to show the team how the information would show as the report was moved into production. The change was made to the reference for</p>	<p><u>Expected Control</u></p> <p>Creation of new suppliers, amendments to supplier details and access to the bank portal should be properly defined within CES policies and procedures, within an approved user access rights matrix and embedded within its respective system. Additionally, segregation of duties should be reviewed in line with the Financial Scheme of Delegation and Finance and Procurement Team Overview Procedure.</p> <p><u>Issue/Finding</u></p> <p>The Head of CES and the Financial Controller for CES advised that changes to supplier details are approved by the Senior Finance Officer. However, at the time of the audit, there was no reference to this within the Finance and Procurement Team Overview (July 2022) or the Outline of Procure to Pay Processes guidelines (July 2022) which were in place at the time of the audit. However, an updated version was provided post-audit dated 30 July 2023 and it was noted that the current process had been included.</p> <p>The Supplier Audit Report extracted on 9 August 2022 captures changes to supplier details. However, it was found that one of the users detailed in the Supplier Audit Report as making supplier changes was ‘CPIO’ which is a generic role and not defined within the system user access rights. From screenshots provided by CES on Sage permissions to change supplier bank details, we also identified other generic roles: ‘eureka’, and ‘CPI01’, although these were not evidenced as having made amendments.</p>

one supplier from “Community Equipment Services – LBC” to “Community Equipment Services – TEST” and then from “Community Equipment Services – TEST” back to “Community Equipment Services – LBC”. There were no changes made by ‘eureka’, or ‘CPI01’.

CES Response – Feb 24

The supplier bank audit report is run before each payment run, and all changes to supplier details are signed off by the Finance Operations Manager before the payment run is processed, so any authorised changes would be identified and acted on at this stage.

In the supplier bank permissions of Sage, generic users have been set to “View Only” – the latest extract of Sage Bank Permissions is attached.

As the Sage license is based on 6 concurrent users and 8

Risk

Lack of defined users system access rights and lack of periodic review of segregation of duties for users can result in unauthorised changes and approvals which ultimately can result in an increased risk of fraud.

licenses, at each change in the team, the users and who has access to make changes to supplier bank details is reviewed. This is needed to ensure CES does not pay for licenses not being used, and to ensure that at each change in the team, appropriate segregation is in place. File maintained is attached, together with updated supplier audit extract from February 2024

Internal Audit comment

The generic users 'CPIO', 'CPI01' and 'eureka' should be removed from the sage permissions list, despite amendments not having been made, in order to prevent future unauthorised changes.

CES Response – Feb 24

As indicated earlier, payments are made solely for active user licenses. However, in instances where a transaction is completed by a user who is no

longer part of the service, the record of the transaction remains in the system. It's important to note that the existence of this transaction record does not imply continued access for the user who initiated it.		
Responsible Officer	Deadline	
Head of Croydon Equipment Service	Immediate	

TERMS OF REFERENCE

CES Banking Compliance

1 INTRODUCTION

- 1.1 Croydon Equipment Solutions (CES) provides community equipment to 'support care in a home setting'. Since its establishment, it has become an 'Integrated Procurement Hub' enabling other authorities to procure, manage, deliver, collect and re-cycle such equipment.
- 1.2 CES was formerly a wholly owned Local Authority Trading Company (LATC) but was brought back in house at the end of 2016. Although now part of the Council, it still operates its own separate financial systems and pays its suppliers direct using BACs.
- 1.3 An ad hoc internal audit in 2017 of the BACS process operated at CES found that BACs files could be amended before being uploaded into Bankline. This issue had still not been resolved when the subsequent audit of CES was conducted in January 2020, with the issue being reported again. The follow up of this issue has been ongoing with resolution, as per last updates, now imminent.
- 1.4 This audit is part of the agreed Internal Audit Plan for 2022/23.

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 focus on each control / 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 included the following areas (and issues raised):





Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisation and Management Requirements	0	0	0
BACS Payment Analysis from Previous Years (2017-2022)	0	0	0
BACS Preparation	0	0	0
BACS Approvals and Submission	0	0	0
Access Rights	0	1	0
Total	0	1	0

Appendix 2

Definitions for Audit Opinions and Identified Issues

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 constantly 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 of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

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

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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