

Final Internal Audit Report

Housing Repairs

June 2018

Distribution: Executive Director of Place
 Director of District Centres and Regeneration
 Head of Responsive Repairs
 Head of Housing Renewal
 Transaction services team manager
 Senior Management Accountant

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	2
	Priority 3	1

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 Public Sector Internal Audit Ltd. 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, 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 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 2017/18.

2. Key Issues

Priority 2 Issues

Examination of a sample of twenty work orders found that in four instances, these had not been appropriately authorised, **(Issue 1)**.

Although it was confirmed that monthly reconciliations of OHMS to One Oracle had been performed for the period tested, namely April – December 2017, none of these were evidenced as independently checked, **(Issue 2)**.

The Priority 3 issue is included under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 3: Processing and Payment of Invoices	
Priority	Action Proposed by Management
2	<p>Two orders were inadvertently signed omitting to ascertain that they were both over the officers' £10k signing limit.</p> <p>One order for £11,532.10 relates to a housing disrepair case and the order was authorised by the Repairs Technical Manager as urgent works.</p> <p>Another one for £10,782.35 was originally allocated by Repairs Technical Manager at £5k but later varied to £10,782.35 by the same manager.</p> <p>Acknowledged these two orders were above his previous limit of £10k but this was raised to £25k on OHMS in October 2017 to reflect that he needs to issue, vary and authorise a number of higher value jobs.</p>
	<p>Detailed Finding/Rationale – Issue 1</p> <p>Prior to invoices being processed for payment, all work orders and invoices are required to be authorised by an officer with an appropriate authorisation limit, as per the authorised signatures list maintained by the Department.</p> <p>Examination of the documentation for a sample of twenty work orders found that four had not been appropriately authorised. In all four cases, the work orders were valued above £10k but the staff authorising these only had delegated authority for orders up to £10k.</p> <p>Where orders are not appropriately certified by an appropriate officer, there is a risk that inappropriate purchases are made.</p>
Responsible officer	Deadline
Head of Responsive Repairs / Head of Housing Renewal	Implemented

Control Area 3: Processing and Payment of Invoices	
Priority	Action Proposed by Management
2	<p>The invoices have since been duly signed/authorised by an officer with sufficient limit on the Scheme of Delegation. Transaction Services Team (TST) procedures have been amended to introduce a further manual check of works orders along with the matching invoice having the correct level of authorisation. Where this is not the case it is being brought to the attention of the Officer initially to remind them to be aware of their limit when signing and thereafter countersignatures are sought.</p> <p>Independent sign off is brought to the attention of the Finance Officer on a monthly basis after completion of the Reconciliation by TST. The reconciliations (up to the month of December) were independently signed off at the end of February 18. TST will continue to advise on a monthly basis and escalate when necessary.</p> <p>All reconciliations from April to December 2017 have now been signed off by an independent officer. The task has been incorporated into the team workload and will be included in the relevant team member's objectives for 18/19.</p>
	<p>Detailed Finding/Rationale – Issue 2</p> <p>There is a Reconciliation spreadsheet for planned and ad-hoc maintenance. Reconciliations are undertaken on a monthly basis, whereby the information is split into cost codes and the reports are reconciled against each cost code. These monthly reconciliations of OHMS and One Oracle are required to be signed and dated by the officer performing these, as well as the independent officer checking these.</p> <p>Examination of the reconciliations that had been completed for April – December 2017, found that while these had been signed by the officer preparing these, none had been evidenced as checked by an independent officer, (which it was explained is the Management Accountant), despite this officer being reminded via e-mail to perform the checks.</p> <p>This same issue was identified in the 2016/17 audit report.</p> <p>Where reconciliations are not evidenced as checked by an independent officer, there is reduced accountability and a risk that these have not been checked and that errors and omissions in the reconciliation process are not detected.</p>
Responsible officer	Deadline
Transaction services team manager / Senior Management Accountant	Implemented

Priority 3 Issue

Action Proposed by Management	Findings
<p>OHMS to Oracle file transfer log – officer transmitting data/officer validating transfer log.</p> <p>The title of the validation column within the log requires amendment as it does not accurately reflect the action taken. The officer inserting their initials does not in effect validate the transfer, this is actioned by staff within ICT Central Systems Development Team & Accounts Payable. TST staff are initialling a check of the return import report values, and any differences would require follow up action in terms of transactions rejected.</p>	<p>In order to maintain an appropriate segregation of duties, the officer who validates a data transfer interface from OHMS to Oracle should not be the same person who transmitted the data.</p> <p>Examination of the File Transfer Log, noted one instance (28 June 2017) where the same person was both the transmitter and validator. The remaining 43 weeks in which files were transferred, did not have this issue.</p> <p>Staff should not sign off their own work as valid. Where there is no segregation of duties, staff may be authorising incorrect payments.</p>

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 2017/18.

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 will examine the Council's arrangements in relation to Housing Repairs, excluding those relating to Axis Europe, and will include the following areas:
- 3.2

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	0	2	1
Budgetary Control and Contract Performance Monitoring	0	0	0
Risk Register	0	0	0
TOTAL	0	2	1

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	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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