

Clydebank Housing Association

Internal Audit 2019-20

Purchases & Payments January 2020

Overall Conclusion

Strong

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for the Clydebank Housing Association's individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

Overview

Purpose of review

The purpose of the assignment was to ensure the risks surrounding the purchasing and payment procedures in place at the Association were appropriately managed and controlled. We carried out detailed checks on all areas of purchasing and payments to ensure that these are correctly recorded in the financial systems.

The assignment is part of the Annual Audit Plan for 2019/20.

Scope of review

Our objectives for this review were to ensure:

- The Association has robust documented procedures in place for its purchasing, payment and procurement cycles. These procedures reflect current practice.
- There is a clear segregation of duties amongst finance staff.
- Access to the finance system is secure and access rights are tailored to the individual's role within the Association.
- Purchases are being authorised at an appropriate level prior to any commitment being made.
- Expenditure is being correctly recorded in the financial systems of the Association.
- There are robust controls in place to ensure that goods have been received prior to the supplier invoices being paid.
- Purchase invoices are processed in a timely manner and within suppliers' payment terms.
- Supplier payments are authorised in accordance with the Association's procedures prior to the payment being released.

- Credit card purchases are authorised in accordance with the Association's procedures.
- There are clear procurement thresholds in place to ensure that value for money is obtained. Evidence of quotes obtained and tender documentation is kept as evidence that the Association's procurement strategy is being adhered to.
- New suppliers are approved at an appropriate level prior to being used to ensure that they are genuine suppliers and are capable of providing the Association with value for money.
- Changes to suppliers' bank details are verified with a known contact prior to being processed through the system.
- Supplier balances are accurately stated in the purchase ledger.
- The purchase ledger balance agrees to the balance in the nominal ledger.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There was no limitation of scope.

Background

The Association's payments process is detailed within the Finance Regulations and Financial Policy. The Finance Policy and Procedures document the processes that must be followed, the roles and responsibilities and the authorisation procedures for payments of supplier invoices. The financial procedures note that the following financial authorisation limits are in place:

- Finance/Housing Assistants up to £500;
- Finance/Housing Officers up to £1,000;
- Department Managers up to £5,000;
- Chief Executive/Heads of Departments up to £10,000; and
- Sub Committees and above over £10,000.

The Association's Financial Regulations states that the following procurement process should be followed for the purchase of goods and services:

- Where costs are under £500, no quotes are required;
- Where costs are between £500 and £1,000, there is a direct award through an approved supplier;
- Where costs are between £1,000 and £5,000. The Association must receive 2 quotes;
- Where costs are between £5,000 and £10,000, 2 quotes must be received, or the Association should complete a quick quote through Public Contract Scotland;
- Tenders in line with current procurement legislation will be required where costs are in excess of £10,000.

Purchasing Process

When purchase invoices are received, by post/email/fax or handed into the office, they should be invoice stamped, with the date, and arithmetically checked by the Association's Finance & Corporate Services Team. All Maintenance invoices initially go to the Maintenance Team for checking and approval by the budget holders before being passed to Finance & Corporate Services Team for processing. All invoices will receive a voucher number and processed onto the purchase ledger by the Association's Clerk. The authorised invoice should bear the initials of both persons passing the invoice for payment. The Association's Chief Executive will approve the purchases raised before the Finance & Corporate Services Manager and a Management Committee Member authorise the payments by BACS.

Work Undertaken

Our work for this review included the following:

- Discussions with key personnel to establish the procedures in place for the processing of purchasing and payments.
- Reviewing the Association's policies and procedures to ensure that these are adequate and comply with current guidance and good practice.
- Evaluation of the Association's current arrangements and policies and procedures to ensure that they are fit for purpose.
- Walkthrough testing of the Associations purchasing process and transaction testing of a sample 15 purchases and 10 credit card purchases to confirm that policies and procedures are being adhered to.
- We obtained details of the segregation of duties arrangements in place and assessed this to ensure that this is robust and fit for purpose. We considered access rights to the electronic purchasing system as well as the Finance system to make sure this is appropriate and fit for purpose.
- We sample checked the payment of suppliers to ensure that the appropriate level of authorisation was obtained for BACs and cheque payments.
- We discussed with staff the process followed for changes in suppliers' bank details. We assessed whether there are any gaps or weaknesses in controls in this process.
- A review of the monthly reconciliations in place for creditors ensuring this was accurate.

1 EXECUTIVE SUMMARY

Conclusion

Overall conclusion

Overall Conclusion: Strong

We can provide a strong level of assurance over the controls in place regarding purchases and payments. However, we have raised one low grade recommendation for improvement. Please see section 3 for further information.

Summary of recommendations

Grading of recommendations

	High	Medium	Low	Total
Purchases & Payments	0	0	1	1

As can be seen from the above table there were no recommendations made which we have given a grading of high.

Areas of good practice

The following is a list of areas where the Association is operating effectively and following good practice.

1.	Accurate purchase ledger balances are maintained, and supplier statement reconciliations are carried out on monthly by the Finance Team. Our review of supplier statements noted no exceptions.
2.	During our sample testing of BACS payments. We found that all BACS payments had received the required authorisation prior to payment.
3.	The Association are informed by email or invoicing to any changes regarding supplier's bank details. The Association has appropriate checks in place to ensure changes are valid such as calling the key contact at the supplier. This helps to reduce the risk of fraud and ensure the change in bank details is valid. The Association's Head of Finance & Corporate Services and Finance Officer attended the Bank of Scotland Webinar for Fraud in 2018/19, to keep up with fraudulent trends within the sector.
4.	The Association conduct pre-start meetings with all contractors. All supplier information regarding bank details, insurance details etc are collected at this meeting. The Association will then process this information onto the banking system.
5.	The Association has an effective value for money procurement strategy for all works. The Association ensure that all contractors on the framework have an equal opportunity to quote for works and no one contractor will be invited to quote significantly more than others. A list of tendered or quoted works will be presented to the Management Committee.

1 EXECUTIVE SUMMARY

The following is a list of areas where the Association is operating effectively and following good practice.

6.	<p>The Association has three credit cards with different limits assigned to them. These cards are held by:</p> <ul style="list-style-type: none">➤ The Chief Executive Officer - £3,000;➤ The Head of Finance & Corporate Services - £1,000; and➤ Finance & Corporate Services Manager - £1,000. <p>Credit cards are monitored and reconciled monthly by the Finance Team.</p>
7.	<p>During our sample testing all purchases/invoices were:</p> <ul style="list-style-type: none">➤ Authorised in line with the Association's Financial Procedures;➤ Date stamped by the Finance Team on the day of arrival;➤ Appropriately numbered; and➤ Received the appropriate authorisation prior to payment.
8.	<p>The Association has an appropriate level of segregation of duties within the Finance Team. These are noted within the Finance Procedures and ensures that no one staff member can place and order, approve the order and approve payment.</p>
9.	<p>The Association has robust Financial Regulations and Procedures in place. The Association reviews the Financial Regulations and Procedures annually. At the time of our audit, November 2019, the Management Committee approved the latest review of the Finance Regulations and Procedures.</p>
10.	<p>The payment authorisation levels within the Association are suitable to the size of the Association.</p>

1 EXECUTIVE SUMMARY

The following is a list of areas where the Association is operating effectively and following good practice.

- | | |
|-----|--|
| 11. | During our sample testing, we found that 9 out of the 10 purchases had been processed in line with the Associations procedures. An invoice to was missing for one transaction, however, we confirmed this payment as a legitimate payment. |
|-----|--|

2 BENCHMARKING

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Purchases & Payments

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	1	2	3
Number of recommendations at Clydebank Housing Association	0	0	1	1

From the table above it can be seen that the Association has a lower number of recommendations compared to those associations it has been benchmarked against.

3 DETAILED RECOMMENDATIONS

Credit Card - Purchase orders			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>The Association has clearly stated in their Financial Procedures that “a purchase order number must be requested for any items of expenditure in advance of the item being purchased. This can be requested from the Clerical Officer who will note this in the Purchase Order Record.”</p> <p>During our sample testing of credit card purchases, we found that 8 out of 10 purchases had a purchase order number assigned to it and 2 did not. This was due to staff members not completing the relevant purchase order paperwork following the purchase.</p> <p>There is a risk that the Association are not adhering to the Financial Procedures.</p>	Low	We recommend that the Association ensure that the Financial Procedures are adhered to and purchase order numbers are issued for all credit card purchases.
Management response			Responsibility and implementation date
<p>We note the recommendation and will ensure that purchase orders are obtained <u>before</u> any spend is incurred wherever possible. In the rare instance that expenses are incurred while out of the office (in this instance, it was minimal parking costs) then the staff member will ensure that a PO number is obtained before they leave the office or will use their own funds and then claim back through petty cash.</p>			<p><i>Responsible Officer:</i> Head of Finance & Corporate Services</p> <p><i>Implementation Date:</i> Immediately.</p>

4 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Management Committee meeting.

Audit stage	Date
Fieldwork start	25 November 2019
Closing meeting	6 December 2019*
Draft report issued	20 December 2019
Receipt of management responses	16 January 2020
Final report issued	17 January 2020
Management Committee	28 January 2020
Number of audit days	2

*Fieldwork was delayed due to Wylie & Bisset staff members illness.

5 KEY PERSONNEL

We detail below our staff who will undertake the review together with the Association staff we spoke to during our review.

Wylie & Bisset LLP

Partner	Ross McLauchlan	Partner	ross.mclauchlan@wyliebisset.com
Senior Manager	Stephen Pringle	Senior Internal Audit Manager	stephen.pringle@wyliebisset.com
Supervisor	Scott McCready	Internal Audit Supervisor	scott.mccready@wyliebisset.com
Auditor	Damian Gray	Internal Auditor	damian.gray@wyliebisset.com

Clydebank Housing Association

Key Contacts:	Sharon Keenan	Chief Executive	Sharon@clydebank-ha.org.uk
	Lynette Lees	Head of Finance & Corporate Services	lynette@clydebank-ha.org.uk

Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.

APPENDICES

A GRADING STRUCTURE

For each area of review, we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Management Committee and addressed by senior management of the Association as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the Association as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

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Scope of review

Our objectives for this review was to ensure:

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- Access to the finance system is secure and access rights are tailored to the individual's role within the Association.
- Purchases are being authorised at an appropriate level prior to any commitment being made.
- Expenditure is being correctly recorded in the financial systems of the Association.
- There are robust controls in place to ensure that goods have been received prior to the supplier invoices being paid.
- Purchase invoices are processed in a timely manner and within suppliers' payment terms.
- Supplier payments are authorised in accordance with the Association's procedures prior to the payment being released.
- Credit card purchases are authorised in accordance with the Association's procedures.

- There are clear procurement thresholds in place to ensure that value for money is obtained. Evidence of quotes obtained and tender documentation is kept as evidence that the Association's procurement strategy is being adhered to.
- New suppliers are approved at an appropriate level prior to being used to ensure that they are genuine suppliers and are capable of providing the Association with value for money.
- Changes to suppliers' bank details are verified with a known contact prior to being processed through the system.
- Supplier balances are accurately stated in the purchase ledger.
- The purchase ledger balance agrees to the balance in the nominal ledger.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There is no limitation of scope.

Audit approach

Our approach to the review will be:

- Discussions with key personnel to establish the procedures in place for the processing of purchasing and payments.
- Review of the Association's policies and procedures to ensure that these are adequate and comply with current guidance and good practice.
- Evaluation of the Association's current arrangement and policies and procedures to ensure that they are fit for purpose.

- Sample testing to confirm that policies and procedures are being adhered to.

Potential key risks

The potential key risks associated with the area under review are:

- If robust procedures are not in place, staff may be unaware of their responsibilities. As a result, purchases and payments may not be processed in accordance with Associational policy.
- Poor segregation of duties between those placing orders and those recording and making payment, giving rise to the potential for erroneous and/or fictitious orders/payments being made, resulting in financial loss to the Association.
- Individuals gain unauthorised access to the finance system and are able to process erroneous and/or fictitious orders/payments.
- Purchases orders are not being authorised at an appropriate level. This could result in goods or services being purchased which are not bona-fida expenditure of the Association and may increase the risk of fraud.
- Purchases and payments are not being recorded correctly in the finance system meaning expenditure could be over/understated.
- Goods are not checked and verified to the purchase order on delivery, increasing the risk of the Association paying for goods that they did not order or have not received.
- The processing of purchase invoices is delayed resulting in payments being made out with suppliers' credit terms.
- If payments are made to the wrong supplier or not made in line with the Association's procedures, there is a risk of financial loss and goodwill occurring.
- Unauthorised purchases are made through the Association's credit card.

- Procurement thresholds are not being adhered to increasing the risk that value for money is not being obtained.
- Erroneous suppliers and/or suppliers who do not provide value for money are included on the Association's list of approved suppliers. Association staff have personal interests in the suppliers they use.
- Changes to supplier details are made without reconfirming with the supplier which could increase the risk of details being falsely altered which increases the risk of fraud and could result in a loss to the Association.
- Purchase ledger balances are inaccurate and do not accurately reflect the Association's liability.
- The purchase ledger balance included in the nominal ledger is inaccurate and does not agree to the purchase ledger.