Internal Audit

DRAFT

Southway Housing Trust

Assurance Review of Accounts Payable

2023/24

October 2023

Executive Summary

OVERALL ASSESSMENT

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

Risk of incorrect payments to be subject to mandate fraud.

KEY STRATEGIC FINDINGS

The Trust has a defined supplier onboarding process that involves supplier verification, completion of a due diligence questionnaire, and subsequent registration on Ebis.

Procedures are comprehensive, however will benefit from a review to standardise and formalise them.

The risk map is extensive and detailed but requires a specific risk with controls and mitigations in relation to payments.

Procedures are in place to prevent fraud both internally and externally, however a reminder exercise would be beneficial to ensure processes are being followed.

GOOD PRACTICE IDENTIFIED

All processes have procedures in place to offer guidance to staff.

There is a clear authority table within the financial regulations which confirms which roles can approve various values.

SCOPE

The review considered the arrangements for authorising and paying costs incurred by the Trust and the arrangements for control of the organisation's cheques and automated payments. The review considered the opportunities for both internal and external fraud and the measures in place to mitigate these.

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	2	3

Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	The Trust has an approved Risk Map that identifies organisational risks, however does not contain an entry in relation to payment-related issues. In December 2022, the Trust faced challenges due to staff departures, leading to resource shortages. During this period, two incidents occurred: bailiffs visited the head office for payment demands, and material suppliers went unpaid, delaying necessary repairs. These matters were reported to the Audit & Risk Committee through the 2022/23 quarterly risk certificate.	The Risk Map be reviewed and updated to incorporate a comprehensive assessment of risks pertaining to payments including relevant mitigation actions and controls.	3	*The Risk Map will be reviewed and updated to include potential risk to non/late payments.*	*22/12/23*	*CFO*
2	Directed	The Trust have a Successful Payment Process training presentation which all Budget staff must attend. It was established that all sampled staff were invited. There is a process in which attendees are asked for feedback on the training session, however this is voluntary.	A procedure be implemented for staff to acknowledge their attendance and understanding of the Successful Payment Process training presentation conducted by the Trust. Further consideration be given to ensure staff acknowledge they have partaken in an induction when first starting within the Trust.	3	*We will review financial training as part of overall induction processes and incorporate feedback surveys to include understanding of subject matter. Catch up training for existing staff will be similarly documented.*	*22/12/23*	*Head of HR supported by Financial Services Team Leader*

PRIORITY GRADINGS

1	**URGENT**	Fundamental control issue on which action should be taken immediately.
2	**IMPORTANT**	Control issue on which action should be taken at the earliest opportunity.
3	**ROUTINE**	Control issue on which action should be taken.

Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
1	Directed	The provided BACS run procedures are clear and well-structured. However, there is room for improvement in terms of providing specific details, such as software/tool usage, report content, currency clarity, and role definition.	The BACS procedure be amended to enhance clarity and usability: 1) Specify software/tools clearly. 2) Describe report content briefly. 3) Ensure role understanding.	*Recommendation agreed.* *We will implement the improvement stated in the recommendation* *Timeline: 22.12.23* *Responsibility: Financial Services Team Leader (procedures) and Development & Treasury Accountant (card administration)*
2	Directed	The procedure document contains detailed steps for conducting financial transactions, including file management, payment verification, and reporting. The document's organisation and formatting could be improved to enhance readability. Finally, version control should be implemented to track document revisions effectively.	Procedure documents be reviewed to enhanced readability through improved formatting and organisation. Additionally, a version control system could be implemented to effectively track document revisions.	*Recommendation agreed.* *We will implement the improvement stated in the recommendation* *Timeline: 01.04.24* *Responsibility: Financial Services Team Leader*
3	Directed	The supplier onboarding process is well-executed, with all suppliers having completed the required new supplier form and the Trust conducting due diligence checks, along with providing documented approval for supplier engagement. This demonstrates compliance with established procedures and a commitment to ensuring supplier integrity and suitability.	The "Office use" section of the New Supplier Form be removed if this is systemised elsewhere.	*Recommendation agreed. The recommendation has been applied on (06.10.23) by the Financial Services & Payables Officer.*

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Findings

Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	**Governance Framework**	There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In Place	-	1, & 2
RM	**Risk Mitigation**	The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In Place	1	-
C	**Compliance**	Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	In Place	2	3

Other Findings

The Financial Regulations document is reviewed on an annual basis and approved by the Board. This was last reviewed in June 2023 and is currently at version 7.9. This also includes a detailed change log which outlines changes made over time.

Updates to payment policies and procedure are communicated via email throughout the business and the relevant documents updated.

Segregation of duties is confirmed throughout the Financial Regulations document. When making payments the document outlines the following process: In the bulk BACS run process, there are three crucial steps for maintaining accuracy and compliance:

(a) The officer responsible for preparing the BACS run reviews the pre-BACS schedule, confirming that each item is supported by an approved invoice or authorised payment request.

(b) An independent officer, separate from the one handling the BACS run preparation, conducts a comprehensive verification of the BACS file within the banking system to ensure its complete consistency with the pre-BACS schedule.

Other Findings

(c) The authorising officer is provided with the opportunity to review all invoices and associated documentation for the BACS run, ensuring transparency and accountability throughout the payment process.

Any payments over £250k are reviewed by the CEO to ensure adequate checks are in place to mitigate against fraud.

The procedure for logging invoices, whilst comprehensive, lacks clarity in terminology, organisation, and error handling. It would benefit from a more structured format, consistent terminology, and specific guidance on handling exceptions and CIS invoices (Operational Effectiveness Matter 2 refers)

The Trust has established a defined supplier onboarding process, which involves supplier verification, completion of a due diligence questionnaire, and subsequent registration on the Ebis finance system.

When a supplier requests changes to their details, the Trust follows a diligent procedure, which includes contacting the supplier through their established communication channels. This step aims to confirm the authenticity of the change request, ensuring that any fraudulent attempts on the Trust are identified.

Testing of the supplier change process revealed that the trust retained evidence of the change request. However, it was observed that in two out of seven change requests, the trust did not proactively reach out to the supplier through alternative contact details to confirm whether they legitimately requested the change. Three supporting documents/emails provided were in line with procedures. For a further two, supporting information showed that the emails used are the original emails held in the system. These requests were received due to sending the purchase order to the original contact person on the system and are therefore in line with the procedures. However, in the case of two requests the Trust has used the same email address for verification.

The audit testing focused on examining the payment run procedure for approved invoices. In the sample of invoices reviewed, it was found that all in the sample had proper evidence of the appropriate level of approval. Moreover, the segregation of duties was adequate, which effectively minimized the risk of internal fraud.

During the examination of the reconciliation process, it was noted that any discrepancies identified during the testing were accompanied by notes detailing the issues.

Delivery Risk:

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	**Performance Monitoring**	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	In Place	-	-
S	**Sustainability**	The impact on the organisation's sustainability agenda has been considered.	Out of Scope	-	-
R	**Resilience**	Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	Out of Scope	-	-

Other Findings

The Trust has three KPI metrics related to the payments process. These are the number of emails and invoices not handled by Finance, number of invoices outstanding, and the number of invoices paid. This is collated on a weekly basis and makes up part of the Business-Critical Indicators report and shared with the Senior Management Team weekly.

EXPLANATORY INFORMATION

Appendix A

Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

2. The matters raised in this report are only those that came to the attention of the auditor during the review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

4. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed, and process objectives achieved.
Reasonable Assurance	The system of internal controls is adequate and operating effectively but some improvements are required to ensure that risks are managed, and process objectives achieved.
Limited Assurance	The system of internal controls is inadequate or not operating effectively and significant improvements are required to ensure that risks are managed, and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

5. We would like to thank staff for their co-operation and assistance during our work.

Release of Report

6. The table below sets out the history of this report.

Stage	Issued	Response Received
Audit Planning Memorandum:	3rd May 2023	11th May 2023
Draft Report:	20th September 2023	10th October 2023
Revised Draft Report	10th October 2023	
Final Report:		

AUDIT PLANNING MEMORANDUM

Appendix B

Client:	Southway Housing Trust		
Review:	Accounts Payable		
Type of Review:	Assurance	**Audit Lead:**	James Back

Outline scope (per Annual Plan):	The review considers the arrangements for authorising and paying costs incurred by the Trust and the arrangements for control of the organisation's cheques and automated payments. The review considers the opportunities for both internal and external fraud and the measures in place to mitigate these. The scope does not include providing an assurance that the expenditure was necessary or that value for money was achieved from the expenditure committed.
Detailed scope will consider:	The review will set out to provide assurance to the Audit Committee that the Trust has appropriate payments and payroll processes in place. • The policy and procedures are up-to-date and clearly define the process and controls. • Risks relating to payments are identified, prioritised and appropriately mitigated on an ongoing basis. • Segregation of duties exists between those authorising invoices and those releasing payments. • Strict controls are operated for the creation of new suppliers and changes to existing supplier details. • Payments are released in accordance with delegated authority levels. • Creditor control accounts are reconciled monthly

Planned Start Date:	11/09/2023	**Exit Meeting Date:**	14/09/2023	**Exit Meeting to be held with:**	David Clermont, Bhups Gohil, Abeer Omer

SELF ASSESSMENT RESPONSE

Matters over the previous 12 months relating to activity to be reviewed	**Y/N (if Y then please provide brief details separately)**
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any matters/periods of time you would like the review to consider?	N