

# Internal Audit Report



Internal Audit Report  
Housing and Environment  
Housing Repairs & Improvement Service  
Financial Control  
Assignment No. 17- 27  
May 2018

## Final Report

(Report No. 18/222)

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

## Internal Audit Report

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27 September 2017. Audit testing was carried out in April 2018.

### Scope and Limitations

In order to arrive at an opinion on the effectiveness of the control objectives, the audit included visits to the repairs and improvement service, interviews with relevant staff and review of the relevant procedures and documentation. Compliance with procedures was tested as appropriate.

Internal Audit undertook work with the Financial Systems Team within Corporate and Democratic Services (CADS) utilising data matching software, which has recently been purchased by the Internal Audit team, to assist in enhancing existing controls within Housing Repairs & Improvements Service.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To confirm that appropriate regulations, policies and procedures are in place for the requisition, purchase, receipt and payment of goods and services.
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Audit Comments: Internal Audit testing can confirm that Operational Financial Regulations, policies and procedures are easily accessible through the Council’s SharePoint to guide staff on the requisition, purchase, receipt and payment of goods. There are also “Best Practice” documents available and a comprehensive Integra Purchase Ledger manual. In addition there is detailed guidance in respect of processing invoices through Northgate.
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Integra and Northgate systems are being used effectively on a daily basis to complete the order production, invoice registration and payment processes. Financial administrative staff is aware of and complying with guidance. However testing highlighted that there were instances where there was not an appropriate segregation of duties. This is an important element of any control framework and
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contributes to ensuring that only appropriate and valid invoices are passed for payment

Checks are being carried out at each stage of the financial process including any changes to supplier bank account details. Sample testing found that invoices are being processed correctly in accordance with the Council's procedures and are filed securely.

A new Authorised Signatory database was introduced by the Financial Systems team in late 2017, which is now accessible through the Integra system. Testing revealed that 8 purchase invoices were authorised by officers who did not have the appropriate documented authority to do so. The service took action during the audit to rectify the above and ensure appropriate documented authority was in place. In one example the invoice was authorised by an officer which was above their financial limit.

The Service has advised that an annual review of authorised signatories is in the process of being carried out.

Data matching software was utilised to identify potential duplicate payments. Five invoices were confirmed as being duplicates, two of which had been previously identified and rectified. Appropriate action is now being taken by the Service in respect of the other three invoices.

The Service confirmed that additional invoice processing training for administration staff was carried out during the audit.

Strength of Internal Controls:

Moderate

Control Objective 2: To confirm that adequate system controls are in place to ensure the integrity of the system.

Audit Comments: Audit testing confirmed that adequate systems controls and procedures are in place to ensure the integrity of the system.

The BACS authorisation process was tested and confirmed effective in a previous internal audit report ([Creditors System](#)). This audit also confirmed that there were adequate back up procedures in place to prevent data older than 24 hours from being lost in the event of a system failure.

The Authorised Signatories Database is maintained and updated on a regular basis. This is evidenced by reports provided by the Financial Systems team which confirm that updates and/or amendments have been submitted within the last 3 months.

Testing confirmed that there were adequate controls in place in respect of user access to the Integra financial system. The Financial Systems team receive monthly lists of leavers from Human Resources which enables them to update user access. In addition the service will advise of any movers. An annual audit of leavers and movers is also carried out. User access in respect of the Northgate was subject to a previous internal audit ([Northgate Housing Information System](#)) and found to be satisfactory.

Strength of Internal Controls:

Strong

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks, the co-operation of the Housing Repairs & Improvements Service and Finance staff within the Service and Corporate & Democratic Services during this audit.

### Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

### Distribution

This report will be distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

B Renton, Director (Housing & Environment)

K McNamara, Depute Director (Housing & Environment)

C Mailer, Head of Housing

J McColl, Service Manager (Housing)

F Crofts, Finance & Resource Manager

F Low, Business & Resources Team Leader

S Coyle, Business & Resources Team Leader

L Robinson, Team Leader

J Cruickshank, Team Leader

G Taylor, Head of Democratic Services

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L Simpson, Head of Legal and Governance Services

S MacKenzie, Head of Finance

S Walker, Chief Accountant

External Audit

### Authorisation

The auditor for this assignment was M Morrison. The supervising auditor was J Clark.

This report is authorised for issue:

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Jackie Clark  
Chief Internal Auditor  
Date: May 2018

## Internal Audit Report

### Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	<a href="#">Segregation of duties</a>	Medium
2	<a href="#">Authority to Sign Invoices</a>	Medium
3	<a href="#">Duplicate Invoices</a>	Medium

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### Appendix 2: Action Plan

#### Action Point 1 - Segregation of Duties

Procedures state in all areas of the payment process there should be recognition of the importance of segregation of duties. This is an important element of any control framework and contributes to ensuring that only appropriate and valid invoices are passed for payment.

Testing confirmed that there were instances where appropriate segregation of duties between checking and authorising invoices was not in place.

#### Management Action Plan

This control weakness was acknowledged during the audit and the service has now put a procedure in place to ensure there is adequate segregation of duties between checking and authorising invoices.

Risk/Importance:	Medium
Responsible Officer:	J McColl, Service Manager (Housing)
Lead Service:	Housing and Environment
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	

#### Auditor's Comments

Satisfactory

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### Action Point 2 - Authority to Sign Invoices

The Council's Financial Regulations require Services to put in place arrangements to ensure that invoices are correct and authorised for payment by an appropriate person.

Audit testing revealed that of the total of 21 invoices tested 8 were authorised by officers who did not have the appropriate documented financial authority to do so. Whilst there are operational reasons for such, this is contrary to procedures.

In addition one of the invoices was authorised by an officer, where the value was above their authorised financial limit.

### Management Action Plan

- 1) The service will ensure that appropriate documented authority is in place in respect of the financial codes identified during testing.
- 2) The service is in the process of undertaking a review of all authorised signatories
- 3) The service will issue a reminder to all authorised signatories of the importance to adhere to their authorised financial limit.

Risk/Importance:	Medium
Responsible Officer:	1) J McColl, Service Manager (Housing) 2) F Low, Business & Resources Team Leader 3) F Low, Business & Resources Team Leader
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	1) Complete 2) June 2018 3) June 2018
Required Evidence of Completion:	2) Evidence that a review of authorised signatories has been undertaken. 3) Copy of reminder issued and circulation

### Auditor's Comments

Satisfactory



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### Action Point 3 - Duplicate Invoices

Data matching software was utilised to identify potential duplicate payments. Of a potential 587 matches, 19 were identified as warranting further investigation due to similar narrative, invoice number or pay date. Five invoices were identified as duplicates, two of which had already been identified and remedied by the Service. The Service has contacted the relevant suppliers in respect of the other invoices to make arrangements to have them repaid.

As a result of these duplicate invoices internal audit will utilise data matching software to review the effectiveness of the agreed actions.

### Management Action Plan

- 1) Service has advised that they are in the process of reclaiming the duplicate amounts from the relevant suppliers.
- 2) The service will remind all officers within the Improvement Service that payment in respect of capital programme contract should be passed for payment based on interim/final certificates and not invoices.
- 3) The service will remind all authorised signatories of their responsibility to ensure invoices are not posted twice.

Risk/Importance:	Medium
Responsible Officer:	J Cruickshank, Project Manager
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	1) June 2018 2) June 2018 3) June 2018
Required Evidence of Completion:	1) Evidence that overpayment has been received 2) Evidence of reminder being issued 3) Evidence of reminder being issued.

### Auditor's Comments

Satisfactory