

Agenda Item 7.2

Yorkhill Housing Association

INTERNAL AUDIT REPORT
PAYMENTS & PAYROLL PROCESSING
FINAL REPORT

LEVEL OF ASSURANCE	
Payroll	Full
Payments	Limited

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REPORT ISSUED TO	
Marion Menabney	Chief Executive
Members of the Yorkhill Housing Association HA Board	

REPORT STATUS	
Auditor	Nicholas Aderinto
Date work performed	19/09/2019
Draft report issued:	02/10/2019
Final report issued:	28/01/2020

AUDIT ENGAGEMENT

RATIONALE

As part of the 2019/20 Internal Audit Plan, it was agreed that internal audit review the design, effectiveness and efficiency of controls in place within Yorkhill Housing Association.

PURPOSE OF REVIEW

The purpose of this review is to provide management and the Management Committee with assurance on the effectiveness of the controls put in place by management in relation to the Association's payroll and supplier payments processes.

RISK

Based upon a risk assessment undertaken by Quinn Internal Audit, discussions with management, and knowledge as a result of previous audit work the key risks associated with the area under review are:

- Financial loss due to error or deliberate actions on behalf of staff or outside parties.

SCOPE

Scope:

The audit considers payroll and supplier payment arrangements implemented by the Association.

This audit considers the movement of documents within the organisation, authorisation procedures and the security of payment methods adopted by the Association.

APPROACH

The auditor spent two days on-site at the organisation's office reviewing evidence to support compliance with the various policies and procedures.

Both paper and electronic files were reviewed and key staff interviewed. Two days were spent off-site analysing findings and drafting this report.

The CEO received brief feedback at a close out meeting at the end of the audit fieldwork.

As part of the Internal Audit process, a draft report is issued to senior management: -

- so that the accuracy of our findings within this report can be validated; and
- a management response received with regards to the recommendations (if applicable).

Once a response is received, a final report is issued.

LIMITATIONS OF THE AUDIT

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit 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 Yorkhill Housing Association. No responsibility to any third party is accepted, as the report has not been prepared for third party purposes.

KEY FINDINGS

Good practices included but not limited to: -

- The payroll system was found to be well organised.

Potential areas of improvement: -

- Increased segregation of duties should be employed during the processing of property service related invoices
- Online banking authorisation procedures should be tightened.

RECOMMENDATION PRIORITY LEVELS

RECOMMENDATION PRIORITY	
Priority 1	A fundamental control. Action should be taken immediately.
Priority 2	An important control. Action should be taken at the earliest opportunity.
Priority 3	An enhancement to the current control framework. Enhancement may include better practice or efficiency suggestions. Action should be taken when practically possible.

RECOMMENDATIONS

No	Finding	Priority	Recommendation
1	The Finance department does not maintain a specimen authorised signatory list. This makes it difficult for a new member of staff to identify who has authority to sign invoices as authorised.	3	An authorised signatory list with specimen signatures should be compiled.
RISK: Financial loss due to error or deliberate actions on behalf of staff or outside parties.			
Management Comment		Implementation Date	Responsible Individual
<p>Noted and Agreed.</p> <p>All staff members involved in the coding, checking, authorising and posting of invoices will be required to provide sample signature/initials.</p> <p>The specimen signatures will be collated and list will be saved in Central Drive for verification.</p> <p>Staff initials will be acceptable.</p>		31/01/2020	G Watson

RECOMMENDATIONS

No	Finding	Priority	Recommendation
2	<p>Repair related invoices are authorised and input into the Finance system by Maintenance staff.</p> <p>The Property Services Manager authorises invoices up to the value of £1,000.</p> <p>Finance staff are not involved in the coding, posting or authorising repair related invoices.</p>	2	<p>It is important that there is a reasonable degree of segregation of duties within the organisation.</p> <p>It is recommended that Maintenance staff are restricted from the Finance module of KYPERA if possible.</p>
<p>RISK: Financial loss due to error or deliberate actions on behalf of staff or outside parties.</p>			
Management Comment		Implementation Date	Responsible Individual
<p>Senior staff discussed implications of current arrangements for the authorisation of property related invoices.</p> <p>Invoices up to and including £1,000 can only be authorised by the Director of Property Services, the Property Services Manager, the Property services Officer or Compliance Manager.</p> <p>Invoices over £1,000 will be authorised by the Chief Executive or Director of Property Services.</p> <p>The original member of staff who instructs the work can check the invoice but cannot authorise payment.</p>		30/11/2019	G Watson/R Calvert

<p>The receptionist logs the invoice in the Invoice Register.</p> <p>The Property Services Assistant code and post the relevant invoices to the purchase ledger with Kypera Finance system.</p> <p>The assistants are restricted to and cannot gain access to other aspects of the Finance System for example Banking and Management reports.</p> <p>As additional control measure the Finance manager staff performs account analysis during management accounts process to ensure that invoices are posted to correct nominal account.</p> <p>It was agreed by senior staff that Property Services Assistants continue with coding and posting of invoices to Finance system</p> <p>Risk has been mitigated with control measures in place. The Senior staff team are satisfied that a reasonable level of Segregation exists with regards to authorisation levels.</p>		
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RECOMMENDATIONS

No	Finding	Priority	Recommendation
3	<p>The Association pays the vast majority of suppliers by cheque. The use of BACS payments is restricted to non-supplier payments.</p> <p>The Governance and Finance Sub-Committee recently approved the move to BACS payments.</p> <p>The Finance Manager is currently investigating the cost of moving to BACS payments.</p>	3	<p>For efficiency reasons, the Association should move to BACS payments for all supplier payments as soon as possible.</p> <p>If the system is introduced for supplier payments, the Finance department must put in place adequate procedures to ensure any changes to supplier bank details are confirmed as genuine.</p>
<p>RISK: Financial loss due to error or deliberate actions on behalf of staff or outside parties.</p>			
Management Comment		Implementation Date	Responsible Individual
<p>The Association is currently undertaking a tender exercise for an IT Consultant with a view to upgrade or replace the current business system in the next financial year.</p> <p>The review will include a full analysis of the payment processing function within the business system which will include payments to suppliers.</p> <p>No further action to be taken at this time.</p>		28/02/2021	G Watson

RECOMMENDATIONS

No	Finding	Priority	Recommendation
4	<p>Appendix 1 of the Financial Regulations & Procedures state authorisation and quotation levels of £500. This relates to Stationery/Office Equipment.</p> <p>Authorisation for property related expenditure is not specifically mentioned in the Financial Regulations.</p> <p>The Property Services Manager confirmed that these levels have been reviewed and are now £1,000.</p>	2	The Financial Regulations & Procedures should be updated to reflect current practice with regards to authorisation levels for Repairs & Maintenance expenditure.
RISK: Financial loss due to error or deliberate actions on behalf of staff or outside parties.			
Management Comment		Implementation Date	Responsible Individual
The Finance and Financial regulations have now been updated to reflect this change in authorisation level.		30/11/2019	G Watson

RECOMMENDATIONS

No	Finding	Priority	Recommendation
5	<p>The Finance Assistant & Compliance Manager have full access to the online banking system.</p> <p>The Finance Manager and Tenancy Services Assistant only have read-only access.</p>	2	<p>Full access to the banking system should be restricted to the CEO, Finance Manager and Compliance Manager.</p> <p>Other relevant staff should only have read-only / input only access.</p>
<p>RISK: Financial loss due to error or deliberate actions on behalf of staff or outside parties.</p>			
Management Comment		Implementation Date	Responsible Individual
<p>The Finance Manager contacted Bank of Scotland who confirmed that the authorisation process had not been set up correctly.</p> <p>The Finance Assistant and Compliance Manager have Full Access to online banking but further levels of authorisation should be adopted for Finance Assistant.</p> <p>The Finance manager has view access only to the account which satisfied business need at present.</p> <p>The CEO at present has no internet banking facility.</p> <p>A mandate to remove the Tenancy Services Assistant and to add Housing Manager will be completing in due course.</p>		31/03/2020	G Watson

RECOMMENDATIONS

No	Finding	Priority	Recommendation
6	<p>The online banking system has not been set up to enforce dual authorisation for all BACS payments.</p> <p>The Finance Assistant & Compliance Manager (who both have full access) can, therefore, enter information into the system and make external payments without further authorisation from a 2nd member of staff.</p>	1	Dual payment authorisation should be put in place immediately to ensure that those who enter payment details into the online banking system cannot also authorise the payment.
<p>RISK: Financial loss due to error or deliberate actions on behalf of staff or outside parties.</p>			
Management Comment		Implementation Date	Responsible Individual
<p>The Finance Manager contacted Bank of Scotland who confirmed that authorisation process had not been set up correctly.</p> <p>The Finance Assistant and Finance manager checked the Online banking control levels and the following recommendations are:</p> <ol style="list-style-type: none"> 1. Finance Assistant to retain Full Access status but reduced to Creator role only. 2. Compliance Manager to retain Full Access status and maintain Creator and Authoriser roles. 		31/03/2020	G Watson

3. Finance Manager to be upgraded to Full Access status but assigned Creator role only.
4. Housing Services Manager to be upgraded to Full Access status but assigned Creator role only.
5. CEO and Director of Property Services to be added as Full Access status with Creator and Authoriser Roles.
6. The office bearers should be added as Full Access status with creator and Authoriser Roles.

To allow payments to be authorised users must have full access to online banking system. Users cannot hold the authorisation role only.

All payment authorisations should be carried out at the Association's offices. Two authorised signatories are required to authorise payments.

The Finance Manager will request BOS to provide some in-house training to oversee this process.

PAYROLL - SUMMARY OF FINDINGS

1.0 Background

- 1.1 Yorkhill Housing Associations (YHA) payroll function is carried out internally by the Association's Finance department. The Association does not utilise the services of an external agent to assist in the payroll function.
- 1.2 At the time of the audit Yorkhill Housing Association (YHA) employed 17 members of staff all of which were salaried and paid on a 4 weekly basis.
- 1.3 The Association uses the SAGE payroll system. Access to the system is password protected and restricted to the Finance Manager and Finance Assistant. The SAGE application is stored on the server and not on local PC's.

2.0 Segregation of Duties

- 2.1 Segregation of duties is a key internal control intended to minimise the occurrence of errors and fraud by ensuring no employee has the ability to both perpetrate and conceal errors or fraud in the normal course of their duties.
- 2.2 Segregation of duties within the payroll function is achieved as follows;

<u>Function</u>	<u>Staff Member</u>
Preparation of Source Data	Departmental Managers
Data Collation & Data Input	Finance Assistant
Data Checks	Finance Manager
Payment Authorisation	Chief Executive

PAYROLL - SUMMARY OF FINDINGS

3.0 Payroll Processing

- 3.1 Staff are required to pass expense forms to line managers for authorisation prior to submission to Finance for further processing. Expenses of the CEO require authorisation by a Committee member.
- 3.2 Payroll is processed on a 4-weekly basis. All staff are salaried and consequently, the basic level of salary does not change on a month to month basis. The Association does, however, make supplementary payments to staff in certain circumstances. The main supplementary payments are listed as follows;

Expense	Number of staff	Amount	EVH / HMRC
Over-time	Rarely paid	Rarely paid. Paid at normal time.	EVH
On Call Allowance	All staff on rotation	£70 per week to 1 member of staff £120 if called out	Internally set
First Aid Allowance	2	£444 paid annually in December	EVH
Parking Permits	10 Staff (available to all staff)	£650 per annum paid in April each year. Amount is deducted from staff over 12 months.	Internally set
Travel Expenses	Varies	0.45p per mile	HMRC
Subsistence	Varies	£5.00 if working in excess of 5 hours away from office	EVH
Professional Subscriptions	Varies	Varies	HMRC
Glasses	Varies	£92.98	EVH
Long Service Award	Rarely paid	£50 - £225	EVH

PAYROLL - SUMMARY OF FINDINGS

3.3 It was noted that YHA do not pay the following expenses to staff.

- Essential car allowance
- Non-essential car allowance
- Mobile phone allowance
- Health insurance.

3.4 The Association assists staff with the payment of parking permits. Permits cost £650 per annum. The Association pay's the cost of the parking permits upfront. This is then recouped on a monthly basis via a payroll deduction.

4.0 Annual Increments

4.1 On an annual basis in March, salary information from the budget is compiled detailing employees current pay levels and proposed levels based on updated EVH scales. The updated salaries are given to the CEO for checking and confirmation. On confirmation, a confidential report is prepared for Committee for final approval.

4.2 Any changes to contracts or appointments of new staff during the year require prior approval by committee.

PAYROLL - SUMMARY OF FINDINGS

5.0 Deductions

5.1 In addition to the payments stated above, a number of deductions are processed via the payroll system on a monthly basis. The main deductions are as follows;

- Pension contributions
- Car Permits
- Union contributions.

5.2 The Association operates 2 pension schemes. Final Salary (5 employees) and Career Average (CARE) 9 employees. The final salary contributions rates are 12.6% and 12.5% for the employer and employee respectively. For all new employees under the CARE scheme, the rates are 6.1% and 6%.

6.0 Data Checks

6.1 As part of the audit, all expense claims covering the period 1st April 2019 to 31st August 2019 were checked for correct levels of authorisation. All expense forms were found to be correctly authorised.

6.2 All salaries were checked to EVH scales. All were found to agree.

6.3 A further check was carried out to determine whether;

- a) All additional expenses matched expense claims
- b) All expenses forms had the correct signatories
- c) BACS statements were signed as agreed.

PAYROLL - SUMMARY OF FINDINGS

- 6.4 The review found that all additional expenses paid matched expenses claims and all expense forms had been signed by the claimant and had a counter-signatory. It should be noted, however, that there was no specimen signature list for which to check signatories.
- 6.5 The payroll summary sheets were checked against bank BACS payment forms for the period 1st April 2019 to 31st August 2019. BACS payment forms, however, were not on file for the payment dates of 07/05/19 and 02/07/19.

PAYMENTS - SUMMARY OF FINDINGS

7.0 Authorisation & Payment Process

- 7.1 The majority of supplier invoices are received by email, via a dedicated email address.
- 7.2 On receipt, the receptionist prints out each invoice and logs details into an invoice register. Invoices are grid stamped with; date received; checked by; authorised by; Processed by.
- 7.3 Once stamped, invoices are passed to individual departments for authorisation and processing.
- 7.4 Processing of invoices is achieved in 2 different ways;

Property Services

Invoices related to Property Services are checked by the relevant Property Services Assistant for accuracy. Once checked, they are authorised by the Property Services Manager, then posted directly into the Finance system for payment by the Property Services Assistant.

Other Invoices

Non-maintenance invoices are checked by the relevant department and signed as authorised. These are then passed to the Finance department for processing. The Finance department post these invoices into the Finance system.

- 7.5 Payments are made to suppliers once per month by manual cheque. The Association does not normally use the BACS system to make supplier payments.
- 7.6 On a monthly basis the Finance department run an “aged creditors” report. This report provides details of the amounts payable to each supplier.

PAYMENTS SUMMARY OF FINDINGS

7.7 Once amounts to be paid to each supplier are agreed, the following are printed;

- Remittance advice
- Payment authorisation form
- Cheques.

7.8 Cheques, remittance advices and invoices are given to the Chief Executive or Depute for checking. Cheques require 2 signatories, one of which must be a Committee member. Once cheques have been signed by the senior staff member, cheques, remittance advices and invoices are passed to a Committee member for final checking and signing.

Authorisation Levels

7.9 Authorisation levels are set out within appendix 1 of the Financial Regulations and Procedures. The Regulations state that for the purchase of stationery/office equipment expenditure up to £500 can be authorised by a senior staff member while expenditure over £500 can only be authorised by the Chief Executive or the depute CEO. In addition, the regulations state that where expenditure is likely to exceed £500, 3 quotations must be sought. It was noted that there was no reference to authorisation levels for repairs and maintenance expenditure.

7.10 The auditor queried the current authorisation levels used by Property Services. The Property Services Manager stated that expenditure levels for which senior staff could authorise was £1,000. It was also confirmed that the quotation level was £1,000 and not £500 for repairs related expenditure.

7.11 The Property Services Manager stated that if jobs were estimated to be between £1k and £12k staff were able to go directly to 3 contractors to obtain quotations. Jobs over £12k, however, require the use of the quick quotes system.

PAYMENTS SUMMARY OF FINDINGS

Invoice Checks

- 7.12 As part of the audit, the auditor requested the latest aged creditors report (18th September 2019). In a number of cases it was noted that the “Total Due” column did not match the sum of the individual columns of the report. The Finance Manager stated that he was aware of this issue. As a result of this, when making payments, amounts paid are based on the individual invoices rather than the total figures within the Aged-debtors report.
- 7.13 The auditor inspected 50 invoices to confirm correct authorisations. In all cases, all 4 authorisation boxes were initialled. Due to the lack of a specimen signature list, it was not possible to determine with certainty that individuals with the correct level of authorisation had checked each of the 50 invoices.
- 7.14 For overhead and other general expenditure, the responsibility for entering and authorising invoices on the Finance ledger rests with Finance staff. For repair related expenditure, however, the responsibility of entering and authorising invoices rests with 5 maintenance staff. Maintenance staff, therefore, are able to order, receive and authorise the purchase of goods and services.

8.0 Online Bank Authorisations

- 8.1 Although the majority of invoices are paid by cheque, online payments are used in limited circumstances. The Association uses the Bank of Scotland online banking system. Access to the system is by way of card and password. Individuals with access to the online banking system include the Finance Assistant, Compliance Manager, Finance Manager and Tenancy Services Assistants.
- 8.2 The Finance Assistant and Compliance Manager have full access to the on-line banking system. These individuals can input amounts into the online banking system and make payment without any further checks.

SUMMARY OF FINDINGS

- 8.3 The Finance Manager and Tenancy Services Assistants have read-only access to the system.
- 8.4 The auditor queried as to why the Finance Assistant and Compliance Managers had greater access rights than the Finance Manager. It was confirmed that this was the historic setup.
- 8.5 The auditor also raised concerns about the ability of the Finance Assistant and Compliance Manager to make payments via the bank with no independent check prior to transfers being made. The Finance Manager stated that bank statements are reviewed on a daily basis as part of the reconciliation process and any unauthorised payments would be picked up. It was also confirmed that a grid stamp was used and signed by senior management, however, this was performed after payments had been made.

Supplier Bank Details

- 8.6 An important part of a payments audit is confirming that adequate policies are in place to ensure that where the Association receives a request to change a supplier's bank details the changes are verified before payments are made to the relevant account.
- 8.7 The Finance Manager confirmed that the Association did not have such procedures in place because with the exception of salary and HMRC payments, the vast majority of payments were made by manual cheque.
- 8.8 The Finance Manager stated, however, that the Association was in the initial stages of assessing a software upgrade to enable bank payments for all suppliers.

PAYMENTS SUMMARY OF FINDINGS

9.0 Credit Cards

9.1 The Association has 3 credit cards.

9.2 A quarterly credit card report is produced for Committee. The report provides a summary of all credit card expenditure within the month, detailing the date, the description of the purchase, the supplier paid, purchase amount and credit limit remaining.

9.3 On a quarterly basis, the Association's treasurer examines and signs the statements to confirm its accuracy.

NAME	JOB TITLE
Gary Watson	Finance Manager
Robert Calvert	Property Services Manager
Quinn Internal Audit would like to thank staff for their assistance during this audit.	

OVERALL ASSURANCE LEVEL RATINGS

Taking account of the number and type of recommendations and the associated risks, the topic/area audited has been assigned one of the following four assurance levels:	
Full Assurance	
A sound system of controls in place and procedural requirements being rigorously applied <u>and/or</u>	
⇒ No evidence of potential legal or serious regulatory breach <u>and/or</u>	
⇒ Supporting policies and procedures are satisfactory <u>and/or</u>	
⇒ Supporting policies and procedures are satisfactory <u>and/or</u>	
⇒ Policies and procedures take account of current regulatory and best practice requirements	
Reasonable Assurance	
⇒ Overall sound system of controls in place but some minor weaknesses in the application of procedural requirements (or minor weaknesses in the formulation of the procedures) <u>and/or</u>	
⇒ No evidence of potential legal breach but some evidence of minor regulatory breach <u>and/or</u>	
⇒ Supporting policies and procedures require to be reviewed but do not put the control objective at risk in their current format	
⇒ Satisfactory assurance may also be used where the criteria for significant assurance are met but the processes are new or not sufficiently tested.	
Limited Assurance	
⇒ Weaknesses in the system of controls or a degree of non-compliance with procedural requirements that puts the control objective at risk <u>and/or</u>	
⇒ Evidence of legal and/or regulatory breach <u>and/or</u>	
⇒ Inadequate supporting policies and procedures that may put the control objective at risk	
No Assurance	
⇒ Weaknesses in the system of controls that leave the processes/system open to significant error or abuse <u>and/or</u>	
⇒ Significant non-compliance with basic control processes that pose the risk of significant error or abuse <u>and/or</u>	
⇒ Evidence of legal and/or regulatory breach where this presents or could present a significant risk to the organisation <u>and/or</u>	
⇒ Very poor supporting policies and procedures (or a lack thereof) that are likely to put the control objective at risk	
⇒ "No assurance" will normally be used where there is a lack of willingness or ability to address serious issues that have been raised	