

## Summary of Key Audit Findings for Quarter 4 2019/20

### **Payroll**

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Starters are properly approved, calculated and paid from the correct dates;
- Leavers are removed from the Payroll in a timely manner and paid correctly and accurately on the correct dates;
- Permanent variations to pay are properly approved, calculated and paid from the correct dates;
- Payroll data is regularly reconciled to the General Ledger;
- Temporary payments (including additional hours, expense claims and payments to casual staff) are correctly authorised prior to processing.

Overall, we found that the Council has effective arrangements in place in terms of the control environment for the payroll service, and we were therefore able to provide an opinion of **Reasonable Assurance**.

In particular, we found that regular reconciliations are undertaken between the payroll data to the general ledger; new employees are appropriately approved; salary information is accurate and paid from the correct dates; and overpayments are promptly identified, investigated, and appropriate action is taken.

However, improvements have been agreed in a number of areas:

- The control process for pre-employment checks has been strengthened, so that identification documents are obtained and, where applicable, DBS checks are undertaken prior to the commencement of employment.
- Controls and management review processes have been improved to minimise the incidence of overpayments to leavers, casual workers; and employees in receipt of overtime payments.
- An email has been sent to all staff requesting them to provide a greater level of detail for journey descriptions when completing mileage claim forms.

### **Accounts Payable**

Accounts Payable is the system for making payments to creditors and suppliers.

The Finance team is responsible for the processing of payments to suppliers using the Technology One (T1) system, which is the Council's main financial system.

Between 1 April 2019 and 15 January 2020, a total of 8,192 invoices with a total value of approximately £24 million had been paid for goods received or services rendered.

The purpose of this review was to ensure that:

- Orders are raised for goods, works and services in accordance with standard financial procedures and the needs of the Council;
- All payments (including non-order invoices, cheque requisitions and urgent payments where appropriate) are subject to review and approval to ensure payments are valid and goods, works or services have been received and are correctly processed;
- Payment runs are subject to appropriate review and authorisation;
- Only creditors that meet the needs of the Council and that do not already exist in the Creditors system are set up. All creditors' details are maintained accurately in the Creditors system;
- Transactions in the Creditors system are completely and accurately transferred to (or reflected in) the General Ledger.

Overall, we were able to provide **Reasonable Assurance** over the key controls operating within the area under review.

The following areas of good practice were identified whilst undertaking the audit:

- The Accounts Payable (AP) system is well controlled as the service operates to a high level of accuracy, and no material processing errors were identified.
- Documentation to support both purchase order and non-purchase order payments was available upon request.
- Reconciliations between the AP system and the General Ledger (GL) are performed on a regular basis. They are executed by an appropriate member of the Accounts Payable team and reviewed by a senior member of the Finance team.

However, a number of areas for improvement were identified which have been agreed with management:

- The use of purchase orders across the Council was raised as an action in the 2017/18 audit. We did not include this outstanding action as part of the audit review, as we are aware that purchase orders are being considered at a corporate level.
- Documentation to support the agreement of and approval levels of authorised signatories in T1 will be added to the user profiles to ensure that members of staff have appropriate approval rights and/or authorisation levels.

- Services will be reminded of the need to action invoices as soon as they are received and note the receipt date to the Council in order to accurately record and report invoice processing dates.
- A duplicate payments report will be devised and run on a regular basis.
- A monthly report will be run to capture changes made to vendor records within the T1 system which will be reviewed (and approved) by the line manager.
- Controls around vendor creation and amendments to vendors' bank details will be strengthened to ensure the validity of information held within the vendor master record.

### **Affordable Housing Company**

The 2011 Localism Act gave local authorities the power to establish their own private local housing companies, which are independent, arms-length, commercial organisations, wholly or partly owned by councils. They can develop, buy, and manage properties in and outside of a local authority area.

The Council has created a housing company (Horsham District Homes), and a subsidiary company (Horsham District Homes [Holdings]), to develop, buy, manage, and maintain affordable housing across the district, in order to meet the Council's strategic housing objectives to:

- Increase delivery of affordable housing;
- Make the best use of S106 commuted sums;
- Provide a financial return to the Council for reinvestment in the District.

The proposal for the Council's Affordable Housing Company (AHC) was approved by the Cabinet in March 2019.

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- All appropriate governance arrangements are in place and are operating as expected;
- Specialist legal advice has been sought and has been complied with to ensure the company creation is compliant with current legislation and regulations;
- The business case (and associated documentation) for setting up the affordable housing company clearly sets out: business goals and objectives; risks and mitigating actions that will be taken; a project plan that includes financial planning; and timelines for development and implementation.

Based on the work carried out, we were able to provide an opinion of **Reasonable Assurance** in this area.

Specialist external legal advice was sought and complied with at an early stage, and it was noted that the legal firm who provided advice to the Council drafted all of the incorporation documents that were adopted and implemented. A clear governance structure for the AHC has been established, documented, and agreed. The business case for the creation of an AHC was approved by the Cabinet, and included business objectives and identified sources of financial investment.

However, there were a few areas identified where further action may be required in order to further strengthen the governance arrangements:

- All Company policies and procedures created (or adopted from the Council) will be approved by the Board of Directors, and a letter will be provided to the Council confirming which policies and procedures have been adopted.
- Horsham District Homes will adopt the Council's Anti-Bribery Policy, and a letter will be provided to the Council confirming this.
- The directors of the AHC will develop a conflict of interest policy that will be adopted and adhered to by those directly involved with Horsham District Homes. The policy will be submitted to the Council for approval.
- It will be noted at full Council that the appointment of the Company Directors was delegated to the Director of Community Services and the Cabinet Member for Community and Wellbeing.
- Documents associated with Horsham District Homes will only be accessible by the Board of Directors, and will be securely stored.

### **Fire Safety Follow up**

An audit of Fire Safety was undertaken during the early part of 2019, and at that time, we were only able to provide a "partial" assurance opinion. We therefore included a follow up review in the audit plan for 2019/20, for the purpose of ensuring that significant improvements have been made in accordance with the agreed management action plan.

The following is an extract from the 2018/19 audit report which provides an overall summary of the findings from our previous review:

"A more coordinated approach to fire safety is needed, including senior management oversight and engagement. Specific areas of concern include: a lack of effective change control; lack of fire safety (emergency) plans; lack of fire drills; lack of an overarching training plan; and some specific weaknesses relating to fire evacuation. There is also a need for specific reviews of: fire doors, to ensure they provide adequate protection; the frequency of fixed wire inspections in public buildings; and the establishment of competency criteria for fire risk assessors".

In completing this work, we are pleased to report that significant improvements have been made, and we were able to provide an overall opinion of **Substantial Assurance**.

Overall, of the 12 findings from the 2018/19 report, all have been addressed (either completely or in part) and where possible these have been implemented within defined timescales.

We raised six findings in the follow up review, but none of these were considered to be fundamental to internal control, and as such, the actions agreed were all rated as low priority.

## **Backup and Recovery**

All organisations that use IT and data as part of their operations have a need for a backup and recovery plan. The plan should enable the Council to ensure that their information assets are protected from loss, corruption or destruction, and that continuity of services can be maintained.

The Council, like the majority of organisations, are heavily reliant on IT systems, and the availability of them, in order to provide services to their customers. As such, the loss of systems and/or data should be considered as potentially high risk to the organisation.

The objective of the audit was to evaluate the arrangements for backing up and recovering data from critical systems, ensuring arrangements are fit for purpose, subject to regular testing, and that all data is stored securely.

Overall, we have been able to provide **Substantial Assurance** over the controls operating within the area under review.

Effective governance processes were found to be in place for data backup and recovery with an overarching policy in place, and roles and responsibilities for all officers across the Council are clearly documented as part of this.

Data backups are programmed to happen on either hourly, daily or weekly intervals and have been taking place in line with these agreed schedules. Processes are in place for different media sources (for example, on premises servers and the 'cloud' through Microsoft Azure) which are used for daily and weekly backups, in order to provide additional safeguards in the event of a loss in IT services.

The Council has successfully migrated most of their backup processes to a 'cloud-based' solution through Microsoft Azure, although a small number of weekly backups are still taking place with physical tapes.

Appropriate physical security is in place to prevent unauthorised access to servers and physical backup tapes.

An exercise has been undertaken to identify and rank applications across the Council, including the order in which they would need to be restored. This document has been used successfully as part of a 'live' full recovery scenario.

We agreed a few actions for improvement in relation to documenting backup processes, and the creation of a testing schedule.