

Internal Audit and Counter Fraud Quarter 3 Progress Report 2023/24

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1. Summary of Completed Audits

1.1 This section provides an update on the audit work completed during the previous quarter.

Debtors/Accounts Receivable

- 1.2 The Accounts Receivable function is responsible for ensuring that all income due to the council is collected effectively, efficiently, and correctly accounted for.
- 1.3 Between 1st April 2022 and 31st March 2023, 11,044 invoices were raised to a total value of £13.7m, offset by 66 credit notes with a total value of £44,225.
- 1.4 This audit sought to provide assurance over the key controls operating within the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, the timeliness and accuracy of invoicing, the recording and matching of payments to invoices and the overall completeness of debt recovery.
- 1.5 The audit did not review the collection of Council Tax Reduction Scheme overpayments which may be part of a separate audit in the future.
- 1.6 Based on the work undertaken, we were able to provide an opinion of **Partial Assurance** over the controls operating for the following reasons:
- 1.7 There is no comprehensive debt management policy currently in place which details how, when, and in what circumstances staff should raise invoices, leading to inconsistencies and delays in the debt recovery process. Roles and responsibilities concerning the approval of sales orders are not clearly defined. Consequently, sales orders are generally approved without sight of supporting evidence (e.g. proof of debt). In such circumstances, there is a risk that sales orders could be raised inaccurately, requiring significant resources to be rectified and potential for future recovery action to be compromised, especially if evidence has been lost or invoices have been created in error.
- 1.8 Reconciliations between the Debtors Control account and the General Ledger have not been completed in the last two and a half years. As such, there is a risk that posting errors have not been identified, leading to errors in the financial statements.
- 1.9 No time is allocated to debt recovery exercises such as targeting cases profiled by age, value or type and, other than Aged Debt and Cost Centre reports, no useful reports exist to provide key performance information.
- 1.10 At present, no procedure exists detailing how and when debts should be referred to Legal Services or be written off. No invoices have been written off in over twelve months and large volumes of cases remain on hold, pending write-off or referral to Legal Services. As such, there is a significant risk that debts owed to the council have not been pursued through legal action or otherwise followed up.

- 1.11 The Accounts Receivable Team have developed efficient processes for reviewing requests for new customer accounts and raising invoices. This means that sales orders are either rejected or converted to invoices and emailed to customers in a timely fashion. This audit was able to obtain sufficient evidence from the Service Teams to support general debt recovery actions taken but as detailed above, this evidence was not contained within the finance system.
- 1.12 Instructions supporting the raising of invoices and a robust process for matching payments to invoices and resolving customer payment errors has been developed. An innovative way to return erroneous payments or part payment to the customer via the bank has also been developed, which was found to be subject to appropriate authorisations and separation of duties and means that a Debtors Suspense account is not required.
- 1.13 The Council recently started work to attempt to deal with the increasing risk associated with debt recovery. A Debt Recovery Working Group has been established to pro-actively look at all aspects of debt management across the Council and a Debt Management Policy is under development as part of this work.
- 1.14 Fourteen medium risk actions and one low risk action have been agreed with management to improve the control environment and these will feed into the Debt Recovery Working Group where appropriate. All high risk agreed actions will be subject to action tracking and we will undertake a follow-up audit in the next financial year to assess the extent of progress made.

Business Continuity

- 1.15 The Civil Contingencies Act 2004 places a statutory duty on local authorities, as a category one responder, to develop, maintain and test Business Continuity Plans (BCPs).
- 1.16 Effective business continuity planning helps to provide a controlled resumption of prioritised services within expected timescales, ensures an organisation can deliver a satisfactory, pre-defined, level of business operations in response to a disruption to business as usual.
- 1.17 Business continuity policies and plans for individual services were produced in 2018 and due for review in 2021, however, the onset of Covid-19 delayed this work. The additional responsibilities and pressures experienced by staff at that time have meant that these plans are only now in the progress of being fully reviewed.
- 1.18 The objective of this review was to advise on the controls that should be in place to manage key risks to the achievement of service objectives for business continuity. As such, this was a light touch piece of work aimed at providing timely input to the process to improve business continuity arrangements so no formal audit opinion was provided.
- 1.19 We did not review the current operating arrangements with East Sussex County Council in terms of the supply of a part time Emergency Planning Officer under the East Sussex Resilience and Emergencies Partnership (ESREP) as this was outside of the scope.
- 1.20 Following a recent management restructure, the Head of Community and Regulatory Services has now taken over responsibility for the Hastings Borough Council Business Continuity Policy

and Framework and has begun the programme of addressing business continuity arrangements for the council.

- 1.21 Plans are in the early stages of being reviewed with more work required to bring policies and procedures up to date. In addition, work is required to set up a Business Continuity Board to review incidents, provide oversight and ensure best practice. It is already evident that good progress is being made.
- 1.22 This will require a commitment from all services, including Senior Leadership Team to bring business continuity up to operational readiness.
- 1.23 The Council is working in partnership with East Sussex County Council to share best practice and develop effective business continuity arrangements, utilising the expertise of the Emergency Planning Officer through the ESREP partnership.
- 1.24 We agreed actions in relation to nine medium risk findings which will support improvements to the control environment. A full audit is planned, potentially in 2025/26, to review the business continuity arrangements once they have been fully embedded.

Support to the Debt Recovery Project

- 1.25 Internal Audit continue to provide independent advice to the Council's Debt Recovery Project. This included a report identifying a number of areas for the project to consider.

2. Counter Fraud and Investigation Activities

- 2.1 No specific counter fraud activity has been required or conducted in the reporting period.

3. Action Tracking

- 3.1 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to any high priority actions that are overdue, and an update on progress with high priority actions will continue to be reported to this committee.

4. Amendments to the Indicative Programme of Work

- 4.1 In accordance with proper professional practice, the Internal Audit indicative programme of work for the year is kept under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, no further amendments have been made to the indicative programme at this stage.
- 4.2 Members are reminded that the focus for the 2023/24 financial year remains on service development and as such, we do not expect all audits from the indicative programme of work to be completed in full. However, we are making good progress against the programme with all the remaining assignments in progress (Cyber Security and Organisational Resilience, Risk Management, Payroll and the certification of the Home Upgrade Phase 2 Grant). We will provide further updates to Audit Committee over the course of the year.

5. Service Development Plan

- 5.1 During Quarter 3 the team have been focused on embedding our approach to undertaking robust and effective internal audit work and developing relationships with key stakeholders.
- 5.2 A self-assessment against the Public Sector Internal Audit Standards is due to be completed in February 2024 and the results will be reported to the Audit Committee alongside the next Internal Audit progress report.
- 5.3 The annual audit plan is also in development for the 2024/25 financial year.

6. Internal Audit Performance

- 6.1 It is a key responsibility of the Audit Committee to satisfy itself as to the ongoing effectiveness of the Council's internal audit arrangements, with the service's conformance against Public Sector Internal Audit Standards key to forming this judgement. Such conformance is self-assessed by the service annually and independently externally assessed at least every five years, all of which is reported to the Audit Committee. In addition to this, performance against a range of key performance indicators is measured on a quarterly basis, with the results reported to the committee throughout the year.
- 6.2 It is, however, important to note that the service at HBC has not in our view, been historically conforming with professional standards and requires significant improvement, all of which is being addressed, as explained above. Furthermore, key performance indicators have not previously been in place for the service and are only now being introduced for the first time. Given this situation, it is not currently possible to report in full against these measures, with more complete reporting due to be implemented for 2024/25. In meantime, we have set out below the agreed key performance measures for the service, with some results included where these are available:

Aspect of Service	Orbis IA KPI	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Indicative programme of work approved by the Audit Committee on 17 th August 2023.
	Annual Audit Report and Opinion	By end July	N/A	Annual Audit Report and Opinion not yet due.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	N/A	Indicative programme of work only in place for current year, with focus on service improvement.

Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	N/A	Self-assessment against PSIAS will be undertaken in February 2024.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	N/A	All future high priority actions will be subject to action tracking.
Our staff	Professionally qualified / accredited	80%	G	100% including part qualified.

Appendix B

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.