

Audit of Housing Benefits and Council Tax Reduction

Draft Report Issued: 9th February 2018
Director Draft Issued: 22nd February 2018
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Audit Report Distribution

Client Lead:	Benefits Manager
Chief Officer:	Chief Executive
Others:	Revenues & Benefits Operations Manager
Audit Committee:	The Audit Committee, which is due to be held on 19 th March will receive a copy of this report.

1.0 Background

- 1.1. This report summarises the findings from the audit of Housing Benefits and Council Tax Reductions. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.
- 1.2. “The purpose of the Revenues & Benefits service is to provide an effective service, responsive to customer needs through the efficient use of resources and information technology. The key aim in relation to Housing Benefits and Council Tax Reduction is to pay the right benefit, at the right time, to the right person, whilst preventing fraud and error”. (*Extracted from Revenues & Benefits Service Plan 2017/18.*)
- 1.3. The administration of Housing Benefit claims for residents of the district is a statutory function of the Council, performed on behalf of the Department of Work & Pensions. Claims are either received within the Customer Contact Centre or electronically and are transferred to the City Council’s Housing Benefit database, Academy for processing by the Benefits team.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation’s governance, operations and information systems.
- 2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Lead for this review was the Benefits Manager and the agreed scope was to provide independent assurance over management’s arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
 - Failure to achieve business objectives due to insufficient governance;
 - Failure to adhere to Government Regulations;
 - Inaccurate payments due to errors;
 - Fraudulent claims undetected;
 - Fines and reputational damage resulting from loss / theft of personal information;
 - Failure to achieve business objectives due to system failures.
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information. (Or list any instances if information not provided during review)

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix B**.
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Housing Benefits and Council Tax Reduction provides **Substantial assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**.
- 4.2 There are 2 audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.4)	-	-
4. Security - safeguarding of assets (see section 5.3)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	-	1

- 4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

Findings Summary (good practice / areas for improvement):

- 4.4 A strong system of internal control has been embedded within the Service area, including the establishment of good governance arrangements to ensure business objectives are achieved.
- 4.5 The Department has demonstrated a strong awareness of risk and mitigating strategies are embedded and monitored in line with Council's risk management procedures.
- 4.6 Guidance is available to ensure the team process claims accurately and quickly and an established and thorough quality assurance process is in place to review this.
- 4.7 Appropriate controls and checks have been implemented to help prevent and identify potential fraudulent activity and the systems have in-built resilience.
- 4.8 The only areas of improvement identified is there is a need to document the quality assurance procedures to ensure the process has an in-built resilience.
- 4.9 There is also a concern that there is no formal archiving and deletion of data within the electronic database. However, the Council is reliant on a software fix being developed by the provider. There is evidence that this is in hand, with the provider developing a new archiving tool to meet General Data Protection Requirements (GDPR). Once provided the Council will need to address this issue as a matter of urgency.

Comment from the Chief Executive

I thank Internal Audit for this Review. I look forward to the recommendation being implemented.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** There is an appropriate team structure in place and roles are defined in up-to-date job descriptions. The team structure is suitable for the needs and requirements of the business and is reviewed by the Revenues and Benefits Operation Manager and Benefits Manager on an ongoing basis.
- 5.1.2** There is a Service Plan in place for the full Revenues and Benefits service in line with corporate policy, which includes relevant information, objectives and priorities for the Revenues Department.
- 5.1.3** Formal monthly meetings are held by the Revenue and Benefits Management team, and the Benefits Manager and Benefit Team Leaders also meet weekly to discuss performance and any other arising issues. Team meetings are also held for the full department when considered necessary.
- 5.1.4** Performance of officers within the Benefits team is scrutinised on an ongoing basis. Rather than using the Council's Corporate appraisal process the team has recently adopted an alternative process, involving a series of self-assessments and workshops.
- 5.1.5** Training needs are identified on a regular basis and is provided to the team based on feedback from the Quality Assurance Officer. Training material is retained and made available to the full team via their shared drive.
- 5.1.6** Financial performance is monitored on a monthly basis by the Corporate Finance team. There are no budgetary concerns within the department.
- 5.1.7** An appropriate risk register has been established for the department, in line with corporate policy. A review of the register found that it contained relevant risks for the service and suitable mitigation strategies are in place for each risk. These are monitored on a timely basis.
- 5.1.8** The most significant risk to the department is the introduction of Universal Credit. There are suitable actions in place to ensure the authority is ready when this is rolled out.
- 5.1.9** During the audit the software provider for Academy (Capita) had declared a profit warning. Audit enquiries revealed the issue has been raised internally and actions had quickly been identified to monitor the situation. This supports the conclusion that the department has strong risk awareness and suitable risk management strategies are in place.

- 5.1.10** Performance Information regarding the speed of processing both new claims and amendments to existing claims is extracted from Academy by the Systems Support team on a regular basis.
- 5.1.11** The information is securely reported to the Department of Work & Pensions (DWP) in line with specified timescales. The data is also included with the Council's internal Performance Reporting framework and is reported quarterly to both the Senior Management Team and Scrutiny.
- 5.1.12** Performance information on both the speed and accuracy of processing is broken down in more detail and reported to the Benefit Department's management team on a regular and timely basis.
- 5.1.13** A benchmarking exercise carried out in 2017/18 indicated the City Council was performing above the national average. This data is available on the DWP website and is monitored informally on an ongoing basis.
- 5.1.14** Guidance is available to all staff for the processing claims in the form of relevant and up to date guide books and online access to the benefits directory.
- 5.1.15** The accuracy of the team's work is reviewed on an ongoing basis by the Quality Assurance officer (see below). However, the Quality Assurance process, which has been significantly developed by the current post-holder, is not documented. As there is only one Quality Assurance Officer in post there is a need to document procedures followed to ensure resilience is in place.

Recommendation 1 – The quality assurance process adopted by the Benefits department should be documented.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1** The database software is devised to ensure claims are processed in line with current regulations and as stated above the team has access to relevant guidance and also receives regular training. This is then supported by the Quality Assurance process who ensures all claims are processed in line with the regulations.
- 5.2.2** The management team keep up to date with changes to legislation. The Council subscribes to the Institute of Revenues and Ratings. Relevant proposed changes to legislation (such as Universal Credit) are also monitored via the operational risk register.

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** Compliance with legislation should ensure that claims are processed accurately. Claims are audited by the Council's external auditors on an annual basis as part of their certification of the Housing Benefit subsidy claim.
- 5.3.2** The latest certification (for the year ending 31 March 2017) was reported to the Audit Committee in January 2018. Findings were positive and only two errors were identified, neither of which impacted on the subsidy.
- 5.3.3** Processed claims are subject to regular independent checks by the Quality Assurance Officer, who aims to review a 4% sample of claims for accuracy on a rolling basis.
- 5.3.4** The Officer in post is suitably experienced and knowledgeable and a review ensured that the quality assurance process is suitable. Findings are reported to managers on a timely basis and team members also receive regular feedback from the Quality Assurance Officer.
- 5.3.5** Electronic data is backed up on a regular basis and processes are in place to allow remote access to the software to allow for continuation of service provision if access to the Civic Centre is prevented.

5.4 Security – Safeguarding of Assets

- 5.4.1** New recruits are subject to a basic disclosure check prior to starting work within the department. This is a standard requirement for individuals with access to DWP data.
- 5.4.2** The check is currently only performed at the point of recruitment in line with the current corporate and DWP requirements. There is an expectation that current employees report any convictions, but it is recognised this is on a basis of trust (this process will be reviewed as part of an upcoming Internal Audit of the Council's corporate safeguarding procedures).
- 5.4.3** Staff declare any conflicts of interest for relatives and close friends they know to be in receipt of housing benefits. Officers are prevented from accessing records for any individuals declared. The declarations were found to be up to date and complete, with one exception (as the officer was absent from work when forms were last completed).

- 5.4.4** Access to the Revenues and Benefit office is restricted to only those staff requiring entry i.e. staff that work in the office, senior managers and cleaning staff. Relevant maintenance contractors are given temporary access when necessary.
- 5.4.5** Access is controlled using the Council's fob access system and access records are reviewed on a biannual basis.
- 5.4.6** Access to the Academy database is password restricted via the network log-in for Council Officers. Only relevant officers are granted access to the system and the level of access is defined.
- 5.4.7** Paper records received by the Council are stored securely and disposed of on a rolling two-monthly basis.
- 5.4.8** There is currently no suitable archiving of electronic data retained within Academy. There is a concern that irrelevant data is currently retained within the system as a result.
- 5.4.9** This has been recognised by the software provider, who accepts the current archiving tool is not fit for purpose. The provider is working on an updated archiving tool to ensure records will be retained in line with the incoming GDPR regulations. This is expected to be completed by May 2018. The Service Support team recognise that the testing and application of this tool is their top priority once the archiving tool is available.
- 5.4.10** From March 2016 responsibility for investigating suspected fraudulent claims was transferred from the Council to the DWP.
- 5.4.11** The Council has a responsibility to identify claims they suspect are fraudulent and refer these to the DWP for investigation. However, smaller anomalies (below a stated threshold) are treated as errors and processed and amended by Council officers.
- 5.4.12** Officers receive regular training on how to identify fraud and have received guidance on how to refer concerns to DWP.
- 5.4.13** There have been difficulties in obtaining feedback from the DWP on the outcome of cases referred to them. However, during the audit the DWP signalled their intentions to start reporting feedback on a quarterly basis and issued a feedback report to cover Q1 2017/18.
- 5.4.14** The Council has recently introduced a risk based verification process. This should ensure that those claims considered to be at the highest risk of being fraudulent are subject to a higher level of verification.

- 5.4.15** The Council partakes in the biennial National Fraud data-matching initiative. Access to matches relating to Housing Benefits are assigned directly to the DWP. A review of matches processed within the NFI database indicated they have been reviewed.
- 5.4.16** The Council also engages in a real time fraud initiative and downloads additional data from HMRC that can be used to verify claim information. This helps identify both lower value errors and suspected incidences of fraud.
- 5.4.17** There is no measurement of how successful the initiative is in terms of identifying errors and frauds. Given the additional processing burden, it is advised that an analysis of the errors and frauds identified by the initiative is performed and reported on a regular basis.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1: The quality assurance process adopted by the Benefits department should be documented	Priority M	Risk Exposure Inability to perform QA process in the result of long term absence/vacant post.	The QA process will be documented.	Benefits Manager	30 August 2018

Appendix B

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Improvements, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations used; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).