



Internal Audit Report 2018/19

Housing Benefits

March 2019

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This report has been prepared only for Aylesbury Vale District Council in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation.

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Medium Risk (9 points)	Control design	-	-	-	-
	Operating effectiveness	-	-	1	6
2017/18 -High risk (22 points)	Total	-	-	1	6

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1

Summary of findings

This report is classified as Medium risk. We identified one medium and six low risk findings.

Since the prior year high risk report (22 points) continued improvements have been made to processes and controls. This is demonstrated by a significant reduction in the most recent processing times (Jan 19 was 13 days, Feb 19 was 12 days for new applications and 2 days for change of circumstances) along with the benefit subsidy audit resulting in no repayment to the Department of Work and Pensions, as was the case in the prior year. These improvements can be attributed to strength in management and a restructure of staff to ensure specialist benefits officers focus on higher risk cases, a further developed training plan and continued monthly quality checks. There is also widespread use of software to data match HMRC details for applicants and targeted projects to undertake 100% checks on identified risk areas.

There has been improvement in oversight of housing benefit overpayment debt since the prior year. Additional resource has been employed and this has “more than paid for itself” in terms of recovering old outstanding debts, however the balances outstanding still remain high. As at February 2019, £5.33m was outstanding in overpayments, with £2.34m created since 1 April 2018 (44%).

This audit highlights a number of areas where further improvement is still required.

Summary of findings

- Procedures for debt write off need to be confirmed and communicated. For the sample selected, there was no evidence of authorisation for any of the debts written off (Finding 1 – Medium)
- The historic overpayment cases are yet to be cleared, with circa. 200 unreconciled cases outstanding (Finding 2 – Low)
- The mapping exercise to clearly identify responsibilities for the various stages of the housing benefits process was yet to be completed, with actions either yet to be raised to address all issues identified or actions not being allocated to individual officers (Finding 3 – Low)
- A record is not maintained to confirm who undertook invoice accuracy checks. Instances where no recovery and follow up action was taken for cases where overpayment invoices were raised

(Finding 4 – Low)

- The overpayments report generated from Northgate recorded a different value to the outstanding overpayment visible on the resident's account per Northgate and Tech1 (Finding 5 – Low)
- A Credit Reference Check (CRA) was not found to be used in practice. The Council procedures state it should be however it was determined the procedure note needs to be updated to confirm it is not a required practice (Finding 6 – Low)
- Wider Use of Real Time Information (WuRTI) is not used consistently (Finding 7 – Low).

We also highlight a number of areas of good practice and can confirm that prior year audit actions have been implemented.

Good practice noted

- A set of KPIs are in place which cover various areas. These are based on the Customer Care Charter. Quarterly Team meetings are designed to discuss performance of these indicators.
- An application called 8x8 is used (which is the Phone System) to collect data. This data is fed into relevant performance indicators and also used to evaluate performance
- There is a dedicated Claims Officer who monitors the work done by other members of staff before sharing formal reports with the Department for Work and Pensions (DWP) on processing speeds
- Claimant information such as 'Income and Expenditure' and 'Rents' is currently being reviewed to ensure that potential overpayments can be avoided where the financial circumstances of claimants have improved
- Verification of Earnings and Pensions (VEP) and CIS are used as tools to conduct risk based assessments
- A weekly report of Northgate and Tech1 differences is shared by the Finance Systems Technical Advisor with Casework Officers for reconciliation purposes
- Proactive steps are taken to reduce the likelihood of overpayment occurring, including having early communication with claimants whose dependents are reaching 18 years of age.

Management comments

We agree with the above findings and the team has already made progress with areas where a risk was identified. The policy and procedures for Risk Based Verification and the use of Credit Reference Checks are already being reviewed and progress with the overpayment elements is ongoing. The write off policy amendments are being led by Gary Wright and the necessary training will then be provided. There is ongoing training to upskill staff and to provide resilience through cross training within Revenues, Benefits and Recovery.

2. *Background and Scope*

Background

Housing benefit is a regular council payment to support payment of rent. How much an individual receives depends on their income and circumstances. The last independently audited balance in 2016/17 confirmed AVDC paid £44,887,809 in housing benefits to the residents of the area.

In 2016/17 and again in 2017/18 high risk internal audit reports were issued, although it was noted that in 2017/18 significant improvements had been made to processes and controls including increasing the quality checks being performed each month, full team training and the monitoring of monthly subsidy forecasts to quickly identify any financial concerns and take prompt action to rectifying benefit cases.

However, there are still challenges, with the biggest concern being around housing benefit overpayments. Consistent with the national picture, levels of overpayment debt remain high. Since the audit report was issued historic reconciliation issues between the finance and benefits system have been resolved, but further work is needed to automate the matching process and establish ongoing reconciliation procedures. Resource has been increased to focus specifically on recovery of housing benefit overpayment.

The purpose of this audit is to review the design of controls and their operating effectiveness with regards to housing benefits during the period since 1 April 2018. The review will focus on overpayment recovery, processing times, reporting and overall reconciliations between the benefits system and Council general ledger system.

Scope

The scope covered the key risks set out in the Terms of Reference (Appendix 2). Our testing included:

- Review of a sample of 10 housing benefit cases paid since 1 April 2018 to confirm whether supporting evidence for the eligibility of the claim was in place. This included proof of ID, National Insurance numbers, income and rent charges, along with other documentation required per the risk rating received
- Review of a sample of 10 overpayments to confirm the action taken to recover the payment and whether this was sufficient and appropriate
- Review of a sample of 10 write-offs from the Northgate system since 1 April 2018 to confirm the reason for the write-off, whether this was in line with the debt policy, and if this was authorised appropriately
- Review of a sample of 5 WuRTI, VEP and CIS cases to confirm that they were effectively used as compliance and monitoring tools
- Review of a sample of 8 cases from October 2018 to January 2019 across 'new claimants' and 'change in circumstances' to confirm that information shared with the DWP was consistent with the information on iWorld
- Review of existence, adequacy and reporting of key performance indicators.

This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Lack of write-off authorisation – Operating effectiveness

Finding

From the sample of 10 housing benefit debt write offs we reviewed, none had been evidenced as authorised for write-off. These were made up of:

- 1 deceased case (£9,531.03*)
- 2 individual voluntary arrangements (IVAs) (£4,628.03* and £414.06),
- 2 Debt Relief Orders (£2,013.92 and £161.54*),
- 4 Local Authority error (£4.62-£1,226.99)
- 1 uneconomical to recover (£2.26).

New procedures for debt management and write offs, including approval levels for write-offs, were developed early in 2018 but these have not yet formally been adopted pending further team changes and opportunities for process improvement. The new procedures will be finalised soon and Internal Audit will review the status and application of these in the upcoming review of "Billing and Debt Management".

At the time of the audit, discussions were ongoing between Debt Recovery and the Finance teams and there was a lack of clarity on the procedures to be followed for write-off of debt for cases relating to bankruptcy or insolvency. This has resulted in a number of cases which have been written off on Northgate, but remain on Tech1. In the sample we tested, 3 had been written off Northgate but remained on Tech1.

* written off Northgate but not Tech1

Risks / Implications

Cost of non-recovery of debt. Non compliance with policies and procedures.

Finding rating	Action Plan
Medium	<p>a) The Debt Management Procedures should be reviewed, agreed by Finance Steering Group and appropriately approved and communicated to ensure all teams are aware of the processes to follow – this should include processes for write-offs due to bankruptcy or insolvency</p> <p>b) Debts should only be written off in line with the agreed approval limits and evidence of authorisation should be retained/referenced.</p> <p>c) Once written-off in Northgate, it should be confirmed that corresponding entry has been written-off Tech1.</p>
	<p><i>Responsible person / title</i></p> <p>a) <i>Nuala Donnelly, Corporate Finance Manager</i></p> <p>b) <i>Gary Wright, Ratings and Recovery Manager</i></p> <p>c) <i>Amanda Williams, Transactional Finance Manager</i></p>
	<p><i>Target date</i></p> <p>a), b), c) <i>31 March 2019</i></p>

2. Legacy unreconciled complex landlord overpayment cases are not concluded – Operating effectiveness

Finding		
<p>Significant improvements have been made in the past 12 months to ensure processes are in place to manage new housing benefit overpayments which occur. Each day the Overpayments Officer reviews a listing of overpayments which have been raised in Northgate debtors; this review is to check: 1) Is the debtor genuine and what recovery method is best; 2) Is it for the right amount; 3) Is the payee the correct person/organisation; and 4) Is it the right address on the invoice. This is a manual process, and whilst there is still a desire to automate, the decision about investing further in this this needs to be considered in the wider context of business cases for system improvements.</p> <p>Whilst new overpayments are now being managed effectively through the manual process, historic overpayment cases, some of which date back to pre-2015 before Tech1, are not fully cleared. These “legacy” cases largely involve housing associations and are complex because one landlord will have multiple tenants and accounts set up against it. Attempts have been made to reconcile these amounts on Tech1 and Northgate over the last year and the number of cases has been significantly reduced from c. 3000 to c. 200. An exercise is now underway to identify and summarise the value of all unreconciled legacy cases by landlord and present these to the Finance Steering Group. At this stage the value of these cases is not known. The Steering Group will be asked to assess those identified and decide which cases should be pursued and which should be written off on the basis of the cost/benefit of the time needed to complete a reconciliation and likelihood of recovery versus writing off the debt.</p>		
Risks / Implications		
Ineffective action to recover debt may result in reduced income		
Finding rating	Action Plan	
Low	A list of legacy complex cases should be prepared and presented to the Finance Steering Group in March or April 2019. Decision is needed over which cases to reconcile and pursue and which should be written off.	
		<i>Responsible person / title</i>
		<i>Hazel Hutt, Group Manager</i>
	<i>Target date</i>	
	<i>30 April 2019</i>	

3. Mapping exercise to identify efficiencies in overpayments benefits process is not yet complete – Control effectiveness

Finding

Benefit overpayments is a complex area requiring the input of many different teams in the Council. This was recognised and to better support future ways of working a flowchart map was devised that set out the stages across the various teams. This has been developed and shared amongst those involved and subsequently an action plan has been agreed which identified efficiencies and better controls to oversee benefit arrangements.

From review of the documents we found:

- The owner/responsible individual against actions identified from this mapping exercise are not recorded on the action list
- Some actions identified are not yet determined. For example, an area for improvement is around System Admin emailing a deb304 file every day which has to be put into the general ledger manually; the concern is that this could lead to human error. The action however is currently a question as it states 'Can System Admin do this (i.e. automate process)'
- Of the 13 areas for improvement identified, three do not currently have an action assigned to them.

Risks / Implications

If the mapping exercise is not complete and actions/owners are unclear then all efficiencies may not be identified resulting in weaker practices and duplication of efforts

Finding rating

Action Plan

Low

The mapping exercise should be completed and actions/owners made clear once discussions have been completed.

Responsible person / title

Hazel Hutt, Group Manager

Target date

30 April 2019

4. Recovery action not taken – Operating effectiveness

Finding

As 31 January 2019, housing benefit overpayment on Northgate was £5,329,000, of which £4,217,000 has been invoiced from Tech1, with the balance being recovered through reductions in ongoing benefit payments. £2,340,000 new overpayment debt has been created since 1 April 2018 (44%). From a sample of 10 accounts with invoiced overpayments as at 7 February 2019, the following was found:

- In one instance an invoice and two reminders had been issued in May and June 2018 respectively, however there had been no follow up action taken since. A Recovery Officer explained that this was due to a lack of staff resources available and will be addressed through the streamlining of the process as part of the review which is currently underway. A further business case to increase housing benefit recovery officer resource has recently been approved.
- In one instance, an account was put on hold in July 2018 as the claimant was querying whether they were receiving a property element in their Universal Credit claim. As at February 2019 the recovery on this account was still on hold with no action being taken. This was then released when testing was undertaken so the overpayment could be recovered.

To ensure accuracy of invoices raised for overpayments, a manual check of every overpayment is performed by benefit officers before requesting, via Hornbill, for Finance to raise the invoice. A spreadsheet is in place which details the number of invoices checked and issued each day, with comments for any cases which are not progressed, including the case reference. This is supported by the Hornbill emails to the Finance Team. These emails are saved in the officers' local drives and the spreadsheet does not record who undertook the check, meaning it could not be confirmed who completed the invoice accuracy check.

Risks / Implications

Inaccurate payments and cost of non-recovery
If recovery action is not being undertaken, the Council may incur financial loss.

Finding rating

Action Plan

Low

a) A review of longstanding overpayment debts on Tech1 should be undertaken to identify those which are not in the process of being recovered so appropriate action can be taken.
b) The invoice checks should be stored centrally (on Box) and include the Hornbill reference so there is an audit trail should the invoice later be queried.

Responsible person / title

a) and b) Gary Wright, Ratings and Recovery Manager

Target date

31 May 2019

5. Discrepancies between Northgate reports and system – Operating effectiveness

<i>Finding</i>		
<p>From a review of 10 overpayment cases, one instance was identified in which the overpayments report, generated from Northgate, recorded the value of the outstanding overpayment as £37.98 higher than the value outstanding per the client's account on Northgate and Tech1.</p> <p>It was confirmed this was not a timing difference as no payments had been made against the account in the intervening period between the generation of the report and date of testing, and there were no payments on the account for the value of the difference. No other explanation could be provided.</p> <p>This raises the issue that the Northgate reports may be including other values for overpayments, undermining the reconciliation process between Northgate and Tech1.</p>		
<i>Risks / Implications</i>		
<p>Inaccurate / incomplete financial data to inform decision making and may result in lost income</p>		
<i>Finding rating</i>	<i>Action Plan</i>	<i>Responsible person / title</i>
Low	<p>The reason for the discrepancy between the overpayment report and the values held on Northgate and Tech1 should be investigated, including identifying whether this will have an impact on the reconciliation process.</p>	<i>Gary Wright, Ratings and Recovery Manager</i>
		<i>Target date</i>
		<i>31 May 2019</i>

6. Actions post risk assessments of new cases not applied and instances of non-compliance for documenting eligibility checks identified – Operating effectiveness

Finding

Credit Risk Assessment (CRA)/ AppCheck

In order to identify higher risk housing benefit applications the Council approved the use of a Risk Based Verification procedure, using AppCheck in October 2017. AppCheck assesses a new application received and automatically defines it as high, medium or low risk; the idea being that those classified as high risk will be subject to closer scrutiny from officers and require further checks to ensure the Council retains appropriate evidence before making a decision.

One requirement of the procedure is that if a high risk case is identified by AppCheck then a Credit Reference Check (CRA) should be carried out on the applicant. A CRA is an instant check which provides the Council with useful information to help validate the information provided by an applicant such as the bank accounts they hold, mortgages or other credit agreements, and names of others who live at the address provided.

During our review we found that the CRA check is not being applied. It was explained that the CRA has been superseded by AppCheck, however it could not be confirmed where this decision was made/documentated or whether a CRA should still be implemented for those cases which are not processed through AppCheck. It should also be noted that AppCheck is an inferior assessment to CRA because it cannot provide information around bank accounts or credit agreements.

Risks / Implications

Inconsistent practices leading to unnecessary inefficiencies/duplication of efforts

Finding rating

Action Plan

Low

A decision should be documented about whether to apply CRA where high risk cases are identified. The Risk Based Verification Procedure should then be updated, including the actions to be taken if AppCheck is not used

Responsible person / title

Hazel Hutt, Group Manager

Target date

30 April 2019

7. Wider Use of Real Time Information (WuRTI) not used consistently – Operating effectiveness

Finding		
<p>The Council has access to a Department for Work and Pensions (DWP) hosted platform named WuRTI (Wider Use of Real Time Information). WuRTI allows benefits officers access to HM Revenue and Customs' employment and pension data in real time (for instance last month's pay slip or pension advice), so that claims can be processed more accurately.</p> <p>When the Council receives a new housing benefit claim, the expected practice is to access the WuRTI system to validate the claimant's earnings. This saves time as it is faster than waiting for the claimant to share this information via payslips and therefore has a significant impact on processing times. The benefits officers can take the applicant's National Insurance (NI) number and place it into the WuRTI system to validate a person's information. Expected practice is that a screenshot of the WuRTI system is held within the Council's Information at Work system to evidence that the check is conducted in 100% of cases.</p> <p>We looked at 5 benefit cases from November 2018 to January 2019 and found that for 1 of the cases a screenshot was not maintained on the Information at Work system. Hence we could not validate whether the WuRTI system was used for this applicant.</p>		
Risks / Implications		
<p>Where WuRTI is not evidenced as used consistently in all cases, the processing times could unnecessarily increase and also there could be greater exposure to future overpayments increasing the balance</p>		
Finding rating	Action Plan	
Low	a) The quality checking process should incorporate reviewing WURTI screenshots to confirm this has been completed.	<i>Responsible person / title</i>
	b) Staff should be reminded of the importance of using WuRTI via training/ internal communication.	<i>a) & b) Hazel Hutt, Group Manager</i>
		<i>Target date</i>
		<i>31 May 2019</i>

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Finding rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of reference

The sub-processes, risks and related control objectives included in this review are:

Sub-process	Risks	Objectives
Reporting	Ineffective reporting leading to poor decision making	<ul style="list-style-type: none"> Benefits Team meetings and Strategic Board assessment of the corporate dashboard which includes relevant benefits metrics are reported/reviewed timely, are accurate and fit-for-purpose
Eligibility	Fraudulent or invalid claims	<ul style="list-style-type: none"> Eligibility is assessed and agreed back to evidence which is recorded clearly on the system and case notes to ensure compliance with local and national guidance
Processing speed	<p>Claimants waiting for payment</p> <p>Admin delays can reduced subsidy</p>	<ul style="list-style-type: none"> Processing times for new claims and changes of circumstance are routinely monitored and reported to maximise efficiencies and action is taken as appropriate
Overpayments	Inaccurate payment. Cost of non-recovery	<ul style="list-style-type: none"> Overpayments are identified in a timely manner, monitored and appropriate action taken Evidence to support decisions where overpayments are identified are recorded and clear approval is received Processes are in place to recover overpayments, in line with legislation, and monitor arrears. Write-offs are in line with Council procedure Appropriate actions are taken to reduce overpayments in the first place and improve recovery
Risk based verification	Inefficient/ineffective risk based processes to assess cases leads to inaccuracy or additional workloads	<ul style="list-style-type: none"> Effective use of risk based verification tools such as AppCheck to identify higher risk cases to then apply sufficient scrutiny to process claims WuRTI and VEP compliance and monitoring tools are effective and operated to ensure quality checks are taking place regularly and effectively Assessment of risk based verification tools to ensure they generate efficiencies on workload and improve accuracy
Errors	Inaccurate payment, impact on subsidy claim	<ul style="list-style-type: none"> Quality checks are performed Claimant error and Local Authority Error is identified, monitored and rectified
Reconciliations	Inaccurate/incomplete financial data	<ul style="list-style-type: none"> Reconciliations between iWorld and T1 are performed and reviewed on a regular basis
Follow up of prior year agreed actions		<ul style="list-style-type: none"> External audit recommendations following the subsidy audit and have been addressed Prior year internal agreed actions have been implemented