



Dacorum Borough Council

Final Internal Audit Report

Housing Benefit & Council Tax Support

May 2017

This report has been prepared on the basis of the limitations set out on page 10.

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Key Dates:

Date of fieldwork: February 2017
Date of draft report: March 2017
Receipt of responses: April 2017
Date of final report: May 2017

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2016/17, we have undertaken an audit of the Council's systems of internal control in respect of Housing Benefit and Council Tax Support.

Housing Benefit and Council Tax Support is available to those on a low income and need help paying their rent or council tax. The amount of benefit a claimant would be entitled to is dependent on a number of factors; including, but not limited to; if they have a spare room, the household income, and the amount of savings they have.

The Local Authority maintains a mainly reactive approach in regards to Housing Benefit Reviews. This is because the Authority is reliant on the claimant informing them where they have had a change of circumstance which may affect their benefit entitlement. If this process is delayed, overpayments are realised. These overpayments should be recovered by the Local Authority in a timely manner.

It was identified that there is a current running total of £3.9m of overpayments arising from Housing Benefits and Council Tax Support at Dacorum Borough Council. This is an accumulation of all overpayments over the last few years. The total value of overpayments has dropped by over £100,000 since the 2015/16 audit. Where an overpayment has been realised, the Local Authority is taking a proactive approach to recover all amounts due. However, this recovery process is capped at a standard maximum recovery rate of £11.10 a week through Benefit entitlement. Where the Local Authority has realised an overpayment, the Central Government will provide 40% of the overpayment, in the form of a reimbursement, as an incentive to recover the overpayment amount. If they can recover all of the overpayment, they will return with 140% of the money originally lost, which can then be used to help meet the cost of benefit administration.

If the Local Authority makes an error exceeding a percentage target, they will not receive any monetary incentive from the Government. This is a complex moving target set as a percentage of total errors and total expenditure; the lower limit cap is 0.48% at which the Council is currently below.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Housing Benefit and Council Tax Support, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Legislation, Administration and Assessment of New Claims, Local Housing Allowance, Reviews, Backdated Benefits and Discretionary Payments, Payments and Reconciliations, Cancellations, Overpayments and Recovery Action, and Fraud Management.

1.3. Summary Assessment

Our audit of the Council’s internal controls operating over Housing Benefit and Council Tax Support found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Housing Benefit and Council Tax Support is shown in Section 3.

1.4. Key Findings

We have raised three Priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- The Local Authority should review procedural guidance to ensure that they are aligned and that effective and appropriate working practices are adopted by staff (Priority 3).
- The Local Authority should ensure that overpayments are set to Auto-Recovery (Priority 3).
- There should be a review of debts held with Sundry Debtors older than six years in line with the Statute of Limitations (Priority 3).

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

We received the management responses in a timely manner, and these have been included in the main body of the report.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Housing Benefits and Council Tax Support, with regards to the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- Discussions with key members of staff to ascertain the nature of the systems in operation;
- Evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- Identification of control weaknesses and potential process improvement opportunities;
- Discussion of our findings with management and further development of our recommendations; and
- Preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

Policies, Procedures and Legislation

Policies and procedures are available to staff which are reviewed on an annual basis. Tasks within the service are allocated to appropriate teams and there is segregation of duties over the tasks carrying significant risks.

Administration and Assessment of New Claims

Claims for Housing Benefits and Council Tax Support are accurately assessed in a fair and timely manner and only valid claims are processed. The Risk Based Verification process has been correctly implemented and appropriate verification action has been taken for the allocated risk score.

Local Housing Allowance

Benefit payments to private tenants are made in accordance with published rates in order to prevent private landlords from obtaining rents in excess of market conditions at the expense of the Council.

Reviews

Changes in claimant circumstances are identified in a timely manner and necessary action to address changes is undertaken in a timely manner.

Backdated Benefits/Discretionary Payments

Only genuine claims based on well-established criteria of “good cause” are paid against.

Payments and Reconciliations

Only valid, appropriate and accurate payments are made in a timely manner, and balances on the Housing Benefit/Council Tax Support system are regularly reconciled to the Housing Rents and Council Tax systems.

Cancellations, Overpayments and Recovery Action

All cancellations are effected in a timely manner and any overpayments are accurately and completely identified for subsequent recovery action. Only appropriately justified write-offs are made.

Fraud Management

Adequate and effective processes are in place to detect, prevent, and deal with fraudulent activity in order to ensure the impact of such activity is minimised.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies Procedures and Legislation			Recommendation 1
Administration and Assessment of New Claims			Recommendation 1
Local Housing Allowance			
Reviews			
Backdated Benefits / Discretionary Payments			
Payments and Reconciliations			
Cancellations, Overpayments and Recovery Action			Recommendation 2 Recommendation 3
Fraud Management			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Alignment of Procedure Documents (Priority 3)

<p>Recommendation</p> <p>The Council should align the procedure notes in place to ensure that all guidance provides clear and consistent instructions for assessment officers on the information required from claimants.</p>
<p>Observation</p> <p>Procedure documents should be aligned to ensure consistency in the process followed by the Council staff.</p> <p>Review of the Capital Verification Procedures and the Risk Based Verification (RBV) Procedures identified that the documents are not currently aligned and may cause confusion among officers. The Capital Verification Procedures state that if a claimant has declared less than £6,000 capital/savings, confirmation is not required. However, the RBV Procedures state that if a claimant is high risk, then original information is required to validate the capital/savings stated by the claimant. There are no clarifications on the verifications to be done if a claimant is high risk but has less than £6,000 capital/savings.</p> <p>Review of 20 new claims identified one case where original copies of the Capitals/Savings was not requested and the claimant had been measured as High Risk on the RBV Score. There was no information available to validate their capital / savings stated on the application form.</p> <p>Where procedure guidance is not aligned, staff may adopt inaccurate, ineffective and / or out of date working practices.</p>
<p>Responsibility</p> <p>Benefit Processing Team Leader</p>
<p>Management response / deadline</p> <p>The RBV and Capital Verification procedures have now been reviewed and align with each other, to ensure consistency in the process.</p> <p>Completed</p>

Recommendation 2: Auto-Recovery Setting of Overpayments (Priority 3)

<p>Recommendation</p> <p>The Council should confirm that the Auto-Recovery setting on overpayments is selected on the Northgate system to ensure timely recovery of overpayments should the claimant return to benefit entitlement.</p>
<p>Observation</p> <p>The Northgate system has an Auto-Recovery flag which allows the Council to make deductions from Housing Benefit payments to recover overpayments. Auto-Recovery should be set on all accounts where an overpayment is identified (and the amount is to be recovered from the resident as opposed to the landlord) to ensure that the Council is able to receive the monies owed to them from the initial overpayment.</p> <p>Review of 15 Overpayments identified one case where the auto-recovery element on Northgate had not been selected. The Claimant was returned to benefits in October 2016 following an overpayment of £99.44. The debt was not on auto-recovery, therefore this overpayment was not recovered in October 2016. It was identified in February 2017 that the auto-recovery element had not been selected, and recovery has now begun at £11.10 a week.</p> <p>Where debts are not identified as being recoverable in a timely manner, the Council may not receive the monies owed to them at the earliest opportunity.</p>
<p>Responsibility</p> <p>Revenues & Benefits Support Team Leader</p>
<p>Management response / deadline</p> <p>This process is as automated as it can be, but relies on manual intervention by officers when there is a switch in recovery target from the landlord to the tenant. We have created a report and identified that there are 108 invoices (6.6% of the total number) where this flag is not currently set, although there are circumstances where this is correct. Further filtering identified just 7 invoices where there is currently a live housing benefit claim, and in only one of these was deduction from ongoing housing benefit the most suitable recovery method. We will review the remaining invoices without the flag by the end of May 2017, and then review the report every three months to ensure that there are no significant delays in recovery.</p> <p>31 May 2017</p>

Recommendation 3: Review of Debts Older than Six Years with Sundry Debtors (Priority 3)

<p>Recommendation</p> <p>The Council should consider a review of overpayments, currently with Sundry Debtors, over six years old to determine if the statute of limitations prohibits legal recovery of the debts.</p> <p>Where the Council believes they cannot legally recover the overpayment, the debt should be considered for write off.</p>
<p>Observation</p> <p>Overpayments should be written off when the Council has no legal grounds to recover the debt owed to them.</p> <p>Review of 15 overpayments identified one case where a debt, for £520.00 from 2004, is still with Sundry Debtors for recovery. The debt cannot be legally recovered due to the statute of limitations. If the debtor refuses to pay the amount outstanding, the Council is unable to take further action.</p> <p>If the claimant returns to benefits, the debt may be written back and recovery made through ongoing entitlement.</p> <p>Where debts that are not legally enforceable are not written off, the level of debtors may be inaccurately stated.</p>
<p>Responsibility</p> <p>Financial Services Team Leader</p>
<p>Management response / deadline</p> <p>We have created a report to identify debts which may fall into this category and this has identified only 49 invoices, with a total value of less than £50,000. These debts make up 3% of the total number of invoices, and 2% of the debt outstanding.</p> <p>We will review these debts by the end of June 2017, considering them for write off where appropriate, and will then continue to review the report every three months in order to monitor the situation.</p>

Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Matthew Kelly Benefits Processing Team Leader
- Stuart Potton Team Leader – Revenues and Benefits
- Clare Dempsey Sundry Debtors Lead Officer
- Chris Baker Group Manager – Revenues, Benefits & Fraud
- Elaine Hopkins Corporate Anti-Fraud Team Leader

We would like to thank the staff involved for their co-operation during the audit.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

May 2017

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