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Internal Audit Report 2016/2017

Revenue and Benefits Partnership

*Hinckley and
Bosworth Borough
Council*

January 2017

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Contents

Executive summary

1



Current year findings

2



General observations

3



Appendices

- A. Basis of our classifications
- B. Terms of reference
- C. Limitations and responsibilities

Distribution list

For action:	Sally O'Hanlon, Head of Leicestershire Revenues and Benefits Partnership
For information:	Ashley Wilson, Section 151 Officer Audit Committee



Executive summary (1 of 3)

Report classification

High risk
(16 points)

Trend

There is a decline in the overall rating of the report compared with the prior year, however the scope of work is very different



Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	1	-	1	-
Operating effectiveness	-	-	1	2	-
Total	-	1	1	3	-

Executive summary (2 of 3)

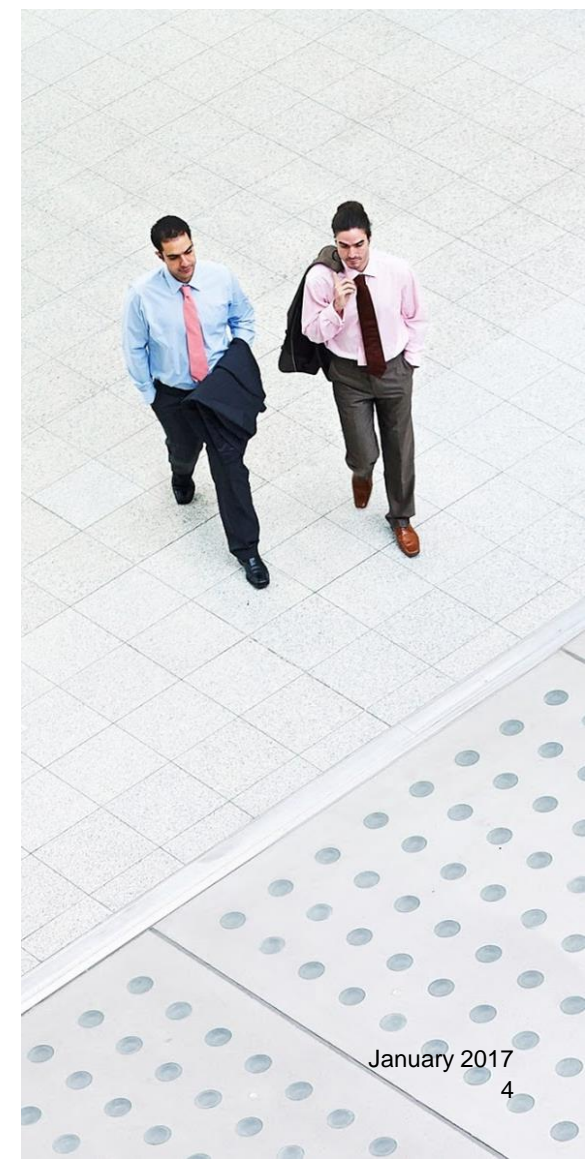


Headlines/summary of findings

This review looked in detail at the processes in the Leicestershire Revenues and Benefits Partnership considering controls over the processing of housing benefit, NNDR, council tax and the current governance structure. The detailed scope of our work is included in our terms of reference, included at Appendix B. This report includes items we identified and consider should be brought to the attention of the Audit Committee.

The outcome is a report with a high risk rating, as there was one high, one medium and three low risk findings:

- **Access to the BACS payment card and online password (high risk):** we identified that the HBBC BACS payment card and online password were too accessible within the department and increases the risk of unauthorised access;
- **Recovery of council tax overpayments (medium risk):** no recoveries have been made since August 2015 which has resulted in some significant arrears across the Partnership Councils;
- **NNDR refund authorisation limits (low risk):** There are currently no authorisation limits for NNDR refunds processed by HDC or NWL. All refunds are processed by the Business Team Leaders regardless of the value;
- **Calculation of earnings (low risk):** 1 of the 25 changes tested identified that earnings had been input incorrectly. The payslip evidence provided had been input as a monthly amount when it was actually a four weekly payslip; and
- **Council Tax reminders (low risk):** 2 instances of the 25 high and 25 low 'risk' rated accounts tested identified instances where the council tax reminder was not issued in line with the expected timescale given the account risk scoring.



Executive summary (3 of 3)



Headlines/summary of findings (continued)

We identified that there was a change in the process during the year relating to refunds. Claimants must provide written evidence to confirm their bank account details. 1 of the 11 customer forms identified that the claimant had not provided confirmation of their bank details before a refund was processed, instead verbal confirmation was considered appropriate. We confirmed this was before the process was implemented, at which point verbal approval was appropriate. No other instances were identified.

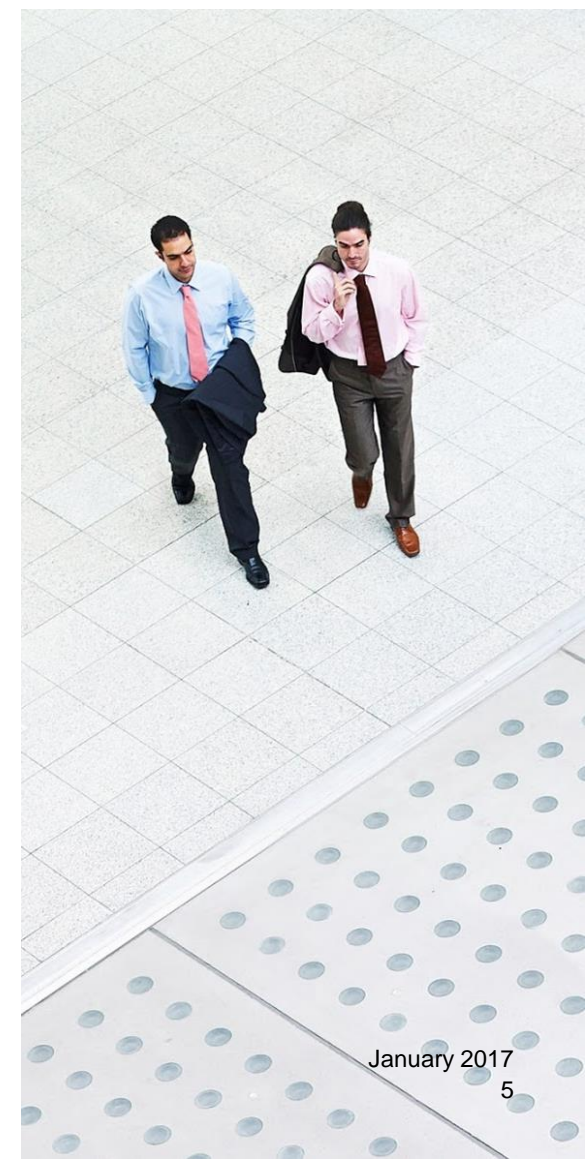
On the whole, the Partnership has in place a strong system of governance and control. Issues identified relate largely to the operation of these controls and examples of non-compliance with the established processes.

To improve the overall efficiency of the Partnership operations points raised regarding the lack of consistent controls and defined procedure notes should be addressed. This will help support staff in the application of controls if they are consistent across all organisations. In addition, the introduction of risk based verification for housing benefit payments should help to streamline processes providing staff with the time to pursue other areas such as the recovery of council tax overpayments.

Whilst there is an established process, the level of housing benefit overpayments in arrears was high at the time of the internal audit. The Partnership is taking steps to address this and we have reviewed the action plan flow chart and consider the planned action to be reasonable.

During the review we identified that the Partnership has a strong reporting framework and regularly reviews collection rates, balances in arrears and time taken for claims to be processed and takes actions to improve these in a timely basis.

We would like to thank all staff involved for their help during the internal audit.



Current year findings (1 of 5)

Access to the BACS payment card and online password

Control design

1

Finding rating

Rating

High

Finding and root cause

In reviewing the process for the payment of the HBBC housing benefit payment it was noted that the password for accessing the online BACS system is included in the procedure notes and it is very simple and easy to guess. The card itself is kept in a drawer in the office, which during the audit it was felt that this was too accessible and the location should be changed.

Implications

The BACS payment system could be easily accessed by unauthorised individuals and used to process a fraudulent payment.

Action plan

The password for accessing the BACS online payment system should be changed and not made readily available to staff, except those responsible for processing the BACS payments.

Responsible person/title:

Russell York

Target date:

ASAP

The physical payment card should be retained in a more secure location and only made available to those staff responsible for processing the BACS payments.

Since the audit finding was raised this action has already been completed.

Current year findings (2 of 5)

Recovery of council tax overpayments

Operating effectiveness

2

Finding and root cause

Where individuals are no longer in receipt of either council tax support or housing benefits any previous council tax overpayments will be recovered by the enforcement team. No recoveries have been made since August 2015 owing to resourcing issues within the department. This has resulted in some significant arrears across the Partnership Councils, at the time of the audit the arrears were:

- HBBC: £1,423,573 (2207 invoices)
- NWL: £1,334,062 (2079 invoices)
- HDC: £948,331 (1303 invoices)

Implications

The Partnership is failing to recover monies owed as a result of claimant overpayments

Finding rating

Rating

Medium

Action plan

The Partnership recommenced the recovery process during November 2016. This process should continue with a focus on reducing the existing level of arrears and then actions required to reduce council tax overpayments going forwards.

Responsible person/title:

Claire Stone – Council tax team leader

Target date:

February 2017

Current year findings (3 of 5)

NNDR Refund authorisation limits

Control design

3

Finding rating

Rating

Low

Finding and root cause

There are currently no authorisation limits for NNDR refunds processed by HDC. All refunds are processed by the Business Team Leaders regardless of the value. For HBBC and NWL there are specific authorisation limits, however these vary between the Councils:

- HBBC: Business Team Leader – up to £5000, Head of Leicestershire Revenues and Benefits Partnership – up to £20,000, Section 151 Officer – anything over £20,000
- NWL: Business Team Leader - up to £25,000, Senior Exchequer Services Officer - anything over £25,000

Whilst HBBC do have refund authorisation limits, the testing performed identified a number of instances where refunds were authorised in excess of the levels required, for example the chief executive had authorised a refund of £7295. To maintain efficiency in the process refunds should only be authorised by those at an appropriate level.

Implications

NNDR refunds may not be subject to an adequate level of scrutiny and oversight.

Action plan

Authorisation limits should be introduced for NNDR refunds processed by HDC with consideration given to aligning the authorisation limits across the three individual Councils.

Responsible person/title:

Sally O'Hanlon

Target date:

February 2017

Current year findings (4 of 5)

Calculation of earnings

Operating effectiveness

4

Finding rating

Rating

Low

Finding and root cause

Recent subsidy audits have highlighted a number of instances where benefits have been claimed incorrectly owing to input errors, especially in the calculation of earnings.

1 of the 25 changes tested identified that earnings had been input incorrectly. The payslip evidence provided had been input as a monthly amount when it was actually a four weekly payslip.

Implications

Individuals maybe paid the incorrect amount of housing benefit.

Continued recurrence of subsidy audit findings and escalation of issues to the DWP.

Action plan

Staff will be provided with updated training highlighting recent subsidy audit findings and the importance of calculating correctly including a reminder on the process for calculating average earnings.

Responsible person/title:

Roger Bowen

Target date:

February 2017

Current year findings (5 of 5)

Council Tax reminders

Operating effectiveness

5

Finding rating

Rating

Low

Finding and root cause

2 instances of the 25 high and 25 low 'risk' rated accounts tested identified instances where the council tax reminder was not issued in line with the expected timescale given the account risk scoring. Given this process is automatically driven by the system this will have required manual intervention to prevent a reminder from being issued but we were not able to identify evidence to demonstrate why the reminder had not been issued.

Implications

Inappropriate manual intervention may override the established automatic council tax recovery process without appropriate justification.

Action plan

Staff should be reminded that if a hold is placed on the recovery of council tax adequate documentation should be retained on the account to justify the manual intervention. Since the audit finding was raised this action has already been completed.

Responsible person/title:

Sue Williams - Lee

Target date:

January 2017

General Observations

The following points are not considered to be a specific risk to the Partnership but observations have been noted that we would like to bring to the attention of the Audit Committee:

Corporate Fraud Hub

The Leicestershire Corporate Fraud Hub has been established to support local authorities in pursuing potentially fraudulent housing benefit and council tax claims. Although the Corporate Hub has been fully established, partners have been concerned with the data sharing arrangements and as a result they have only recently signed up to the hub, and are not currently sharing data with the Corporate Fraud Hub. Instead, the Partnership have commissioned work on an ad hoc basis with approval from the relevant Council. A clear steer has been received from the Partnership Management Board that corporate fraud does not sit within the Partnership and therefore if the services offered by the Corporate Fraud Hub are to be utilised then each individual Council needs to review the arrangements in place.

Risk based verification

Risk Based Verification (RBV) is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. The approach allows for a more intense verification activity to be focused on claims more prone to fraud and error. The Management Board and Partnership Joint Committee has approved its RBV policy and started to apply RBV from October 2016 using risk scoring software developed by Xantura and Capita. We have reviewed the policy and it is fit for purpose and largely consistent with the approach undertaken by other authorities who have adopted RBV. However, it will be important to review the policy and ensure it remains relevant going forward. At the time of conducting the review it is too early to ascertain the impact on RBV on housing benefit processing times. We will consider the impact of RBV as part of future internal audit reviews into the Partnership.

Partnership working

This review was not intended to cover the efficiency of the Partnership arrangement, however in the course of our work we identified that there is inconsistency in the processes and controls applied between NWL, HDC and HBBC for some of the different areas included in the scope of our review. Specific examples include: NNDR refunds, council tax refunds and housing benefit payments. To improve the efficiency of the Partnership overall and ensure continued compliance with the established procedures it would be better to have consistency across all Partnership operations.



**Appendix A: Basis of our
classifications**

**Appendix B: Terms of
reference**

**Appendix C: Limitations
and responsibilities**

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact ; 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

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; 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

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

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

Findings rating	Points	Report classification	Option A	Points
Critical	40 points per finding		Low risk	6 points or less
High	10 points per finding		Medium risk	7 – 15 points
Medium	3 points per finding		High risk	16 – 39 points
Low	1 point per finding		Critical risk	40 points and over

Appendix B: Terms of reference

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Terms of reference

Revenues and Benefits

**Hinckley and
Bosworth Borough
Council**
October 2016

To: Sally O'Hanlon, Head of Leicestershire Revenues & Benefits Partnership
From: Richard Bacon, Head of Internal Audit

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Background and audit objectives



This review is being undertaken as part of the 2016/17 internal audit plan approved by the Audit Committee on 27 June 2016.

Background and audit objectives

Leicestershire Revenues & Benefits Partnership was set up in 2011 as a partnership between Hinckley and Bosworth Borough Council, North West Leicestershire District Council and Harborough District Council. The Partnership is responsible for the collection of Council Tax and National Non-Domestic Rates (NNDR) and for administration of Housing Benefits, on behalf of these three Councils. This review will evaluate the design and operating effectiveness of controls in the Collection Fund process with the objective of ensuring that all properties are identified, correctly valued and billed so that Council Tax and NNDR revenues are maximised and are accurately reflected in the accounts. It will also consider controls over the Housing Benefits process, but will be limited to control design and will not consider operating effectiveness. The review will provide assurance over the Collection Fund and Housing Benefits for all three partners.



Audit scope and approach (1 of 2)



Scope

We will review the design and operating effectiveness of key controls in place related to the Benefits Partnership during the period April 2016 to the date of audit fieldwork.

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

Sub-process	Objectives
Fraud	<ul style="list-style-type: none"> The current set up is clearly defined and there are defined roles and responsibilities with regards to fraud investigations between the individual Councils, Partnership, Corporate Fraud Hub and DWP.
Housing Benefit	<ul style="list-style-type: none"> There are established procedures for processing Housing Benefit payments and these are subject to adequate levels of review and scrutiny before payment Issues identified as a result of previous subsidy audits have been addressed with adequate actions undertaken to reduce the instance of errors in subsequent years The Risk Based Verification Policy has been developed and adequately approved.
Council Tax / NNDR	<ul style="list-style-type: none"> There are clear linkages between Council Tax and Housing Benefit to make sure that any overpayments are identified on both accounts and action taken to recover both Housing Benefit and Council Tax overpayments There is a measured risk based approach to recovery with a claimant's propensity to pay being considered before reminders are issued
Refunds	<ul style="list-style-type: none"> There is a standardised procedure for processing refunds arising as a result of Council Tax, NNDR implemented across the Partnership
Reporting	<ul style="list-style-type: none"> Arrangements are established to monitor performance of the Revenues and Benefits Partnership Management information is adequate for effective governance and performance management

Audit scope and approach (2 of 2)



Limitations of scope

The scope of our work will be limited to those areas outlined above. Our review will be performed in the context of the information provided to us.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the relevant Revenues and Benefits processes through discussions with key personnel, review of systems documentation and walkthrough tests, where appropriate;
- Identify the key risks within the Revenues and Benefits processes;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

Where the process and controls are consistent across all three Local Authorities of the Partnership these will be considered in totality and testing performed on this basis. Individual testing of each Local Authority will only take place where the controls and processes differ.



Internal audit team and key contacts



Internal audit team

Name	Role	Contact details
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Jodie Stead	Internal Audit Manager	jodie.a.stead@uk.pwc.com 07753 459227
Joanna Loughton	Internal Audit Team Member	joanna.m.loughton@uk.pwc.com

Key contacts – Hinckley & Bosworth Borough Council

Name	Title
Ashley Wilson	Section 151 Officer
Sally O'Hanlon	Head of Leicestershire Revenues & Benefits Partnership



Timetable and information request



Timetable

Fieldwork start	31 st October 2016
Fieldwork completed	11 th November 2016
Draft report to client	25 th November 2016
Response from client	2 nd December 2016
Final report to client	9 th December 2016

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Please note that if Hinckley and Bosworth Borough Council requests the audit timing to be changed at short notice and the audit staff cannot be deployed to other client work, Hinckley and Bosworth Borough Council may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.

Impact on the Internal Audit Plan

The 2016/17 internal audit plan approved by the Audit Committee on 27 June 2016 includes provision for a 7 day Housing Benefit and 7 day fraud prevention and detection. This review will combine the two areas as well as addressing some Council Tax and NNDR elements.



Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with Hinckley and Bosworth Borough Council in our agreement dated 10 May 2016. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

In the event that, pursuant to a request which Hinckley and Bosworth Borough Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Hinckley and Bosworth Borough Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Hinckley and Bosworth Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such [report]. If, following consultation with PwC, Hinckley and Bosworth Borough Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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