

Audit and Corporate Governance Committee Report

Report of Audit Manager

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AGENDA ITEM NO 5

Internal Audit Activity Report Quarter 3 2009/2010

Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the Committee to consider. The Committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary.

Background

2. Internal Audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Councils' objectives. It assists the Councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.
3. After each audit assignment, Internal Audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.
4. Assurance ratings given by Internal Audit indicate the following:

Full Assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil Assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

5. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

Internal Audit Activity

6. Since the last Audit and Corporate Governance Committee meeting, the following audits have been completed:

Planned Audits

Full Assurance: 1

Satisfactory Assurance: 3.5

Limited Assurance: 0.5

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Facilities Management	Full	1	0	N/A	0	N/A	1	1
Cornerstone – Membership	Satisfactory	4	0	N/A	0	N/A	4	4
Bank Reconciliation	Satisfactory	9	0	N/A	2	2	7	6
VFM in Procurement	Satisfactory	10	1	0.5	4	4	5	4
1. Housing & Council Tax Benefits	Sat/Limited	12	1	1	5	5	6	6

Follow Up Reviews

	Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Cornerstone	Satisfactory	12	8	0	0	4
Performance Management	Satisfactory	5	2	0	0	3
Risk Management	Limited	13	13	0	0	0
Freedom of Information	Satisfactory	2	1	1	0	0

7. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to Committee.
8. Members of the Committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
9. A copy of each report has been sent to the appropriate Head of Service, the relevant Strategic Director, the Section 151 Officer and the relevant Member Portfolio Holder.
10. A 6 month follow up is undertaken on all non-financial audits undertaken to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

1. HOUSING & COUNCIL TAX BENEFITS 2009/2010

1. INTRODUCTION

- 1.1 The fieldwork for this audit was undertaken in October and November 2009, and the final report was issued on the 3 December 2009.
- 1.2 The following areas have been covered during the course of this review:
- To ensure that payments are made in accordance with regulations, standing orders and financial regulations, and supported by documentary evidence that denotes that applications are promptly processed;
 - To ensure that benefits assessments are correctly calculated, processed promptly and that adequate quality checks are in place to ensure the accuracy of the benefit award;
 - To ensure that overpayments are supported by documentary evidence, are adequately recorded, correctly calculated and valued and appropriately classified for Housing Benefits Subsidy purposes;
 - To ensure that the recovery of overpaid benefits is prompt, efficient and effective;
 - To ensure there is an adequate audit trail to substantiate the figures on the Housing Benefits Subsidy claim, the claim is properly completed and the figures included are accurate.
 - To ensure that the performance statistics of the service are recorded correctly, supported by evidence and are monitored regularly by management.

2. BACKGROUND

- 2.1 The Council delegated the service attached to Housing and Council Tax Benefits to Capita in August 2006 for both the Vale of White Horse District Council and South Oxfordshire District Council. The service is conducted in accordance with the Contracting Out (Function of Local Authorities: Income Related Benefits) Order 2002 which states the functions that may be contracted out. Checking requirements are attached to the exercise of this function, together with an authorisation process.

3. PREVIOUS AUDIT REPORTS

- 3.1 Housing and Council Tax Benefit was last subject to an internal audit review in March 2009. Nineteen Recommendations were raised and a Limited assurance opinion was issued.
- 3.2 Internal Audit has noted that eleven of the nineteen recommendations have been fully implemented, with a further three recommendations relating to benefit recovery registering an ongoing status. The remaining recommendations have been reviewed as part of this audit. Internal Audit recognises the need for procedures relating to the benefit service,

and linkage between service delivery and the client team to be documented. To assist improvement in the recovery process, Legal Services should standardise the recovery process across both Councils. Two recommendations have been restated as a result of reviewing the previous audit recommendations.

4. 2009/2010 AUDIT ASSURANCE

- 4.1 In the areas of payment process, benefit assessments, subsidy claim and performance:

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

- 4.2 In the areas of overpayment and recovery:

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

No significant improvements have been made in these two areas since the last audit review. Internal Audit will undertake a review of these two areas in 6 months to ensure that progress has been made.

- 4.3 Twelve recommendations have been raised in this review. One High risk, Five Medium risk and Six Low risk.

5. MAIN FINDINGS

5.1 Payment Process

- 5.2 Internal Audit recognises the significant effort of the RSSP Operations Board and Capita to improve the accuracy of the benefit assessment process, but would advocate that further improvements are still required. Capita anticipates that this can be achieved in part by the movement of the benefit assessment process to Havant. Two anomalies were noted from the compliance testing which require further investigation. Internal Audit also noted significant evidence to support that benefit assessment change of circumstances cases are not being processed promptly, which can have repercussions for the generation of overpayments and /or subsidy claims. Internal Audit does have confidence in the process relating to the generation of the benefit payment itself, which is clearly assigned, authorised by the appropriate personnel and generated from Capita's Bromley offices. Two recommendations have been made as a result of the work undertaken in this area.

5.3 Benefit Assessment

5.4 Internal Audit has concluded that the discretionary housing payment policy and procedures should be reviewed in light of recent changes agreed with the Council's Strategic Director. To ensure reliance upon the adequacy of the level of quality checking undertaken, Internal Audit would advocate that Capita be required to periodically provide their quality checking records to the client team. Internal Audit has already commented above on the issue relating to the prompt review of change of circumstances claims, but would advocate that the quality checking process could be utilised to improve the accuracy of the benefit assessment process. Capita should be reminded that accounts placed on hold should be reviewed in a timely manner, and especially those on hold in excess of 100 days. Three recommendations have been made as a result of the work undertaken in this area.

5.5 **Overpayments**

5.6 Internal Audit acknowledges that adequate documentation exists to support overpayments. The overpayment guide is in need of review to reflect the recently agreed changes to the timescale and threshold for recovery action. In light of the current issues relating to the classification of errors for benefit subsidy purposes, Internal Audit suggests that Capita undertake periodically a sample test of current overpayments to ensure the categorisation of errors for benefits subsidy purposes is accurate to minimise the potential for penalties. Two recommendations have been made as a result of the work undertaken in this area.

5.7 **Recovery**

5.8 The Contract Manager (Capita) stated that the overall position on Housing Benefit overpayments for both Authorities had not changed since the last audit took place. Therefore Internal Audit has not undertaken any compliance testing on overpayments. Internal Audit fully supports Capita's recent cleansing exercise to establish the status for the recovery of Housing Benefit overpayments, with a view to instigating recovery of historic debt as a matter of urgency. Internal Audit would also advocate that consideration is given to the allocation of extra staff resources to facilitate the recovery of overpayments and assist Capita to meet the proposed incentives as detailed in the Council's payment and performance mechanism for Housing Benefits. Internal Audit would like to undertake a review of Housing Benefits overpayments and recovery within six months to allow Capita to provide evidence of continuous improvements to the reduction of overpayments and improvements in recovery. Three recommendations have been made as a result of the work undertaken in this area.

5.9 **Subsidy Claim**

5.10 Internal Audit has noted the ongoing concerns regarding the Council's subsidy claim and potential penalties, and advocates that Capita undertake sample checking of errors to verify the accuracy of the data for subsidy purposes. Internal Audit would support the production of the subsidy claim on a monthly basis to assist reconciliation to the Agresso

system, and to enable the Council to assess the impact of any shortfalls that may arise and respond accordingly. One recommendation has been made as a result of the work undertaken in this area.

5.11 Performance

5.12 Internal Audit has noted the focus of the RSSP Operations Board over the last year has realised some improvements in service delivery and performance for housing benefits. The performance statistics and reporting arrangements are robust, and the introduction of the Payment and Performance Mechanism for both Councils should assist in delivering further improvements over the current financial year. Internal Audit has already commented on the accuracy of the assessment process, overpayments and the Local Authority subsidy claim, all of which require further attention. No recommendations have been made as a result of the work undertaken in this area.

OBSERVATIONS AND RECOMMENDATIONS

PREVIOUS AUDIT RECOMMENDATIONS

1. Procedures

(Low Risk)

Recommendation	Rationale	Responsibility
That formal procedures relating to the benefits services and linkages between the operational service and the client team function should be clearly stated, reviewed and updated and adopted across both Councils.	<p><u>Best Practice</u> Procedures should be in place to improve clarification on all aspects of service delivery and responsibilities.</p> <p><u>Findings</u> Both the Client Team and Capita have started to work on procedures to ensure a standardised approach to benefits across both operational sites, however the procedures agreed from the process remain undocumented since the last audit took place.</p> <p><u>Risk</u> If a unified approach is not fully documented, there is a risk that officers may take incorrect courses of action where some is required.</p>	Senior Benefits Officer (Capita) & Revenues & Benefits Client Officer
Management Response		Implementation Date
<p>Recommendation is Agreed This should be part of our ongoing process review which will be carried out by James Connolly, Revenues & Benefits Client Officer and Peter Bradburn, Senior Benefits Officer (Capita) to take account of all recent system reviews and process changes.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		31 May 2010

2. Registering a Debt

(Low Risk)

Recommendation	Rationale	Responsibility
That Legal Services	<u>Best Practice</u>	Legal Officer

<p>should explore the merits of adopting the practice of on-line recovery for housing benefit recovery cases to ascertain if the system could be of benefit to the Council.</p>	<p>The Council should always strive to ensure that costs relating to a case are kept to a minimum and that the same applies to the time spent pursuing the debt.</p> <p><u>Findings</u> Internal Audit was informed by Legal Services that debt recovery differs across SODC and VWHDC. SODC adopt a practice which is known as "Registering the Debt", this practice incurs less court fees than incurred at present for both the Council and claimant and less time in pursuing the debt. However it was noted that no recovery was undertaken on-line.</p> <p><u>Risk</u> Without adopting the most effective approach to recovery of debt, the Council is being exposed to increased direct and indirect costs.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>1) At present the registering of debts by SODC is only used in cases of Administration Penalties.</p> <p>2) The legislation would seem to indicate that the process could be used for the recovery of overpayments, however Legal would need to be assured that the overpayment determination letter exists (in the format that is sent to the debtor) and adheres in all aspects to the legislative requirements. Legal would contend that the normal recovery process of a Particulars of Claim and Claim Form adequately deal with the requirements of recovery. It also gives an opportunity for legal to raise any questions that may be evident on the supporting papers.</p> <p>3) With regard to the use of Money Claims Online (MCOL) we would comment, a) the drop in fees is minimal on average it is £5 per claim, b) problems have been highlighted regarding the entry of judgment after 6 months, in that the claim is struck out and c) the payment of fees has to be made by credit or debit card - this element would need to be explored and a system put in place to allow officers to make payments. Ongoing research into these problems continues.</p> <p>Management Response: Nigel Shepherd, Legal Officer</p>		<p>Cases will be assessed on their individual merits forthwith.</p>

PAYMENT PROCESS

3. Benefit Assessment

(Low Risk)

Recommendation	Rationale	Responsibility
That the anomalies found during testing regarding account nos 700011617 and 600052144 should be investigated and resolved.	<p><u>Best Practice</u> All anomalies/errors once detected through the checking process are corrected as soon as possible.</p> <p><u>Findings</u></p>	Capita Benefits Manager

	<p>Two accounts were identified which raised Internal Audit housekeeping concern and require further investigation.</p> <p><u>Risk</u> Failure to correct errors could result in overpayments going undetected for a considerable period of time and can impact on the Council's subsidy claim.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed Both of these have been reviewed and whilst there was no issue with 700011617, the other case has been resolved.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		Implemented

4. Change of Circumstances Benefit Assessment

(Medium Risk)

Recommendation	Rationale	Responsibility
That Capita should introduce measures to improve the accuracy of the benefit assessment process. In particular change of circumstances should be processed promptly and be subject to additional checking, until such time as the Council can gain assurance that benefit change of circumstance requests are being processed correctly.	<p><u>Best Practice</u> Measures should be in place to ensure that the accuracy of the benefit assessment process is assured.</p> <p><u>Findings</u> The Revenue and Benefits Client Team and the Benefit Fraud team have alerted Internal Audit to the range of errors arising from the assessment process undertaken by Capita. Internal Audit obtained six case notes to support this statement and noted that all six cases had generated overpayments. Many cases reflected significant delays in dealing with notification of change of circumstances and Internal Audit noted all six cases would also be classified as Local Authority error.</p> <p><u>Risk</u> If errors can be classified as local authority error, there may be an impact upon the Council's subsidy claim.</p>	Capita Benefits Manager
Management Response		Implementation Date
<p>Recommendation is Agreed I am unaware of the specifics of the 4 cases referred to above; however, the administration of changes in circumstance has now been brought up to date which will significantly reduce the overpayments caused by delay in process. The checking process itself covers all types of assessment and a more focused approach will be introduced once any key areas of error have been identified.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		31 March 2010

BENEFIT ASSESSMENT

5. Discretionary Housing Benefit Payments

(Low Risk)

Recommendation	Rationale	Responsibility
That the discretionary housing payments policy and administration procedure should be reviewed and updated to reflect the recently adopted process for discretionary payments as agreed with the Council's Strategic Director.	<p><u>Best Practice</u> The discretionary housing payments policy and administration procedures should be consistent across both Councils to harmonise arrangements regarding discretionary housing payments.</p> <p><u>Findings</u> The Revenue and Benefits Client Manager advised Internal Audit that approval to operate the new process for discretionary housing payments had been agreed by the Council's Strategic Director for Finance. This should now be reflected in a revised procedure for discretionary housing payments.</p> <p><u>Risk</u> If policies and procedures are different across both sites that are working in conjunction and using the same system there is the likelihood that errors and inefficiencies may occur when officers work across both sites.</p>	Paul Howden, Revenues and Benefits Client Manager.
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle The policy has been reviewed and is in operation following delegated authority being granted. The only delay in finalising the written procedures was due to a pending FFTF decision to harmonise the appeals process between the two authorities. This has now been received and the final part of the process will be ratified in the written procedure notes. Unfortunately the appeals process will continue to be different between the two authorities.</p> <p>Paul Howden, Revenues and Benefits Client Manager</p>		1 February 2010

6. Off Site Checking Reports

(Low Risk)

Recommendation	Rationale	Responsibility
That Capita should provide the Revenue and Benefits Client team with the monthly offsite quality checking record to provide assurance on the checking process being undertaken by Capita, and to prevent duplication in the checking of claims.	<p><u>Best Practice</u> The provision of the monthly off site checking report would serve to provide assurance that the level of checking undertaken by Capita is adequate.</p> <p><u>Findings</u> The Senior Revenue and Benefits Client Officer stated that the Off Site Checking Reports had not been provided to the client team, and he considers it would be useful to provide assurance on the levels of checking</p>	Capita Benefits Manager

	<p>being undertaken by Capita. This could prevent duplication in terms of the checking of claims.</p> <p><u>Risk</u> Failure to provide reports that denote the level of checking undertaken by Capita could result in increases in error in the benefit assessment process which the Council would not be alerted to.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed This is already being provided.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		Implemented

7. Claims Suspended

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>That Capita should be reminded to review all accounts placed in suspense within the 28 days timetable. Furthermore accounts on hold in excess of 100 days as detailed in the claims suspended report produced on 21 Sept 2009 should be reviewed as a matter of urgency, with a view to removing the suspension if it is considered no longer appropriate.</p>	<p><u>Best Practice</u> Housing Benefit accounts placed on hold should be reviewed every 28 days to ensure the appropriate action is taken in a timely manner.</p> <p><u>Findings</u> The report stated some 243 accounts were placed on hold as at 21/09/09. Internal Audit noted that the number of days that the accounts had been placed on hold ranged from a few days up to 466 days. Internal Audit noted some 32 accounts had been on hold for over 100 days.</p> <p><u>Risk</u> Failure to review accounts in a timely manner could result in accounts not being pursued in accordance with Council policy and failing to take appropriate action when necessary.</p>	Capita Benefits Manager
Management Response		Implementation Date
<p>Recommendation is Agreed The review of cases which have been suspended for more than 28 days does need to be undertaken, however this work is effectively monitored by the general work process whereby set time periods are used within the EDMS system which prompt users to review claims on a regular basis. It is not unusual for cases to be suspended for long periods of time due to the complexity of the claims but I will ensure that the older cases are reviewed and the necessary system work is carried out where appropriate.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		31 March 2010

OVERPAYMENTS

8. Overpayments Guide

(Low Risk)

Recommendation	Rationale	Responsibility
The Overpayments Guide is reviewed and updated to reflect changes to the timescale for the recovery of overpayments and threshold for which cases are referred to Legal Services.	<p><u>Best Practice</u> An up to date Overpayments Guide should be in place to improve clarification on all aspects of recovery and responsibilities.</p> <p><u>Findings</u> The Contract Manager stated that the overpayment guide is to be reviewed and updated due to changes made to the recovery timetable and threshold of cases to be referred to Legal Services. Internal Audit noted a number of inaccuracies in the guide relating to overpayments.</p> <p><u>Risk</u> If a unified approach to Overpayments is not fully documented, there is a risk that officers may take incorrect courses of action.</p>	Capita Benefits Manager
Management Response		Implementation Date
Recommendation is Agreed Already done.		Implemented
Management Response: Darren Keen, Capita Contract Manager		

9. Overpayment Testing

(Medium Risk)

Recommendation	Rationale	Responsibility
Capita should undertake sample testing of current overpayments to ensure the categorisation of errors for benefits subsidy purposes is accurate to minimise the potential for penalties.	<p><u>Best Practice</u> Regular sample checking of overpayments would minimise and help reduce the risk of inaccuracies with regards to the subsidy claim and subsequent penalties.</p> <p><u>Findings</u> The Contracts Manager stated that there is no checking of overpayments undertaken by Capita staff, however overpayments could be picked up as part of the 10% checking process undertaken by the Revenue and Benefits Client team.</p> <p><u>Risk</u> Failure to review the categorisation of errors for benefit subsidy could result in high level of errors for the subsidy claim and invoke penalties which could be avoided.</p>	Capita Benefits Manager
Management Response		Implementation Date
Recommendation is Agreed Overpayment subsidy information is now being provided regularly		Implemented

and reviews are already being carried out.	
Management Response: Darren Keen, Capita Contract Manager	

RECOVERY

10. Old Debts

(High Risk)

Recommendation	Rationale	Responsibility
That historic debt/overpayments are reviewed as a matter of urgency with a view to taking action to recover the debt or submitting the debt for write off if considered appropriate.	<p><u>Best Practice</u> All old and historic debts should be rigorously pursued.</p> <p><u>Findings</u> The Senior Benefits Officer has identified from the Overpayment Analysis report that the recovery status on a large percentage of historical debts denotes that the items have been referred to Legal Services, when this is not the case.</p> <p><u>Risk</u> If older debts are not rigorously pursued, it may not be possible to recover the debt due to the person moving or the debt becoming age barred.</p>	Capita Benefits Manager
Management Response		Implementation Date
<p>Recommendation is Agreed To assist in meeting the Legal Department's corporate objectives all debts older than 4 years have been reviewed and appropriate letters have been issued to the customers. A more automated, timely and robust process has now been adopted which will mean that all overpaid debts are created and pursued in an effective end to end process for all years, including new debts.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		31 March 2010

11. Staff Resources

(Medium Risk)

Recommendation	Rationale	Responsibility
That consideration is given to the allocation of additional staff resources to assist with the reduction of housing benefit overpayments and to meet the incentive as proposed in the payment and performance mechanisms for housing benefits.	<p><u>Best Practice</u> That staff resources dedicated to overpayments is sufficient to address improvements in the recovery of overpayments.</p> <p><u>Findings</u> Historically pursuing overpayments has always been an issue for the Council, and they are still not being pursued vigorously since the commencement of the Capita contract and therefore the value of overpayments remain considerable.</p> <p><u>Risk</u> If there are not adequate staff resources available, the recovery of</p>	Capita Benefits Manager

	overpayments will fail to meet the Council's incentives as stated in Payment and Performance mechanism.	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>I am happy that the level of resource allocated to debt recovery is perfectly adequate for the ongoing process, due to the automation of much of the recovery cycle. I will however be utilising extra staff in the short term to ensure that a full review of existing debt is carried out before the end of the financial year.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		31 March 2010

SUBSIDY CLAIM

12. Subsidy Claim

(Medium Risk)

Recommendation	Rationale	Responsibility
That the subsidy claim should be formulated and reviewed on a monthly basis to assist the Council's budget monitoring requirements in identifying significant variances in the calculation of the subsidy claim which may require officers to intervene.	<p><u>Best Practice</u></p> <p>The subsidy claim should be formulated and reviewed on a monthly basis to assist with the Council's budget monitoring requirements in identifying significant variances in the calculation of the subsidy claim which may require officers to intervene.</p> <p><u>Findings</u></p> <p>The Accountancy staff stated during the course of this audit review that they would appreciate the facility to reconcile the subsidy claim on a monthly basis and it was noted that this arrangement is already in place for officers based at VWHDC.</p> <p><u>Risk</u></p> <p>If the subsidy claim reports are produced intermittently, there is a risk that problems may be caused in forecasting predicted out turns.</p>	Capita Benefits Manager
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>This is already being done, but will be enhanced with input from the Contract Manager.</p> <p>Management Response: Darren Keen, Capita Contract Manager</p>		Implemented