

Internal Audit Report 2015/2016

Leicestershire Revenues and Benefits Partnership

Council Tax, National Non-Domestic Rates and Housing Benefits

January 2016

Hinckley and Bosworth
Borough Council

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2 This report has been prepared by PwC in accordance with our engagement letter with Hinckley and Bosworth Borough Council dated October 2015.

4 Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to public sector 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.

Distribution List

For action:

Sally O'Hanlon (Head of Leicestershire Revenues and Benefits Partnership)

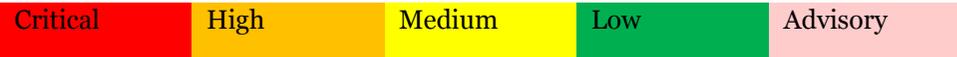
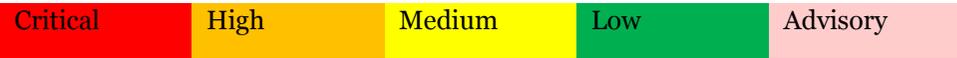
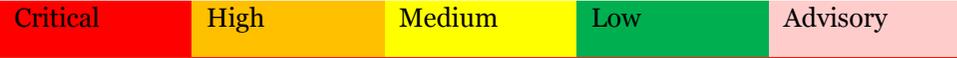
Sue Williams-Lee (Revenues Operational Manager)

Storme Coop (Benefits Operational Manager)

For information:

Ashley Wilson (Interim Head of Finance)

1. Executive summary

<i>System</i>	<i>Report classification</i>	<i>Total number of findings</i>					
Council tax	Medium risk  (7 points)						
		Control design			1		
		Operating effectiveness			1	1	
		Total			2	1	
NNDR	Low risk  (2 points)						
		Control design					
		Operating effectiveness				2	
		Total				2	
Housing benefits	No risk rating. This was a non-assurance review.						
		Control design					2
		Operating effectiveness					
		Total					2

Headlines / summary of findings:

Leicestershire Revenues and Benefits Partnership was formed in 2011 and is responsible for the collection of council tax and National Non-Domestic Rates (NNDR) and for administration of housing benefits, on behalf of its three partners Hinckley and Bosworth Borough Council (HBBC), North West Leicestershire District Council (NWLDC) and Harborough District Council (HDC).

We tested the processes and controls in the council tax and NNDR systems and also just the processes within the housing benefits system, although testing of controls for housing benefits was outside the scope of this review. We selected samples for testing from each of the three Councils and found that overall the controls in place were good, but we identified the following issues:

Council tax

We identified two medium risk issues:

- There are currently no detailed procedure notes available for staff working in the council tax team.
- We tested 20 exemptions and 20 discounts for each Council and found that supporting evidence is not always held on file for exemptions and discounts (5/60 exemptions, 4/60 discounts), and exemptions and discounts awarded are not always subject to review within an appropriate time frame (12/60 exemptions, 4/60 discounts).

We also identified one low risk issue. There is a lack of evidence to show that reconciliation of the properties held on the Partnership's database to Valuation Office records takes place regularly.

These issues were not specific to an individual Council.

NNDR

We identified two low risk issues with the NNDR system:

- We tested 20 exemptions and 20 discounts for each Council. We found no issues with discounts awarded, but we identified that where an application has been made for empty exemption the property is not always inspected to confirm that is empty (3/60 exemptions tested).
- There is a lack of evidence available to show that the properties held on the Partnership's database are regularly reconciled with Valuation Office records.

These issues were not specific to an individual Council.

Housing benefits

We have not performed testing over key controls within the housing benefits system; however we have considered the adequacy of the processes in place. We have identified two advisory findings:

- Quality performance is not reported to the Partnership Management Board on a monthly basis.
- Processing targets for new applications are more stringent than the national average. A review of these could be considered to help address processing errors.

2. Detailed current year findings

1. Council tax: process documentation – control design

Finding

There is currently no comprehensive procedural guidance on processing council tax available for staff. We understand that plans are in place to develop new procedure notes as part of the recent restructure. This has not progressed as staff have needed to be trained in all processes undertaken with their new roles whilst managing the high workload.

Implications

Where there are no detailed procedure notes in place there is a risk that processes are not operating as intended

Action plan

Finding rating



Medium risk

Agreed action

More detailed procedure notes will be developed as part of the Business Process Review (BPR).

Procedure notes should be reviewed on a regular basis, and made available to all staff.

Responsible person / title

Procedure notes: Sue Williams-Lee

Monitoring: Sally O'Hanlon

Target date:

Procedure notes: All processes completed by 31.3.2017

Monitoring: Immediate

Reference number:

CT01

2. Council tax: supporting evidence and review of discounts and exemptions – operating effectiveness

Finding

We reviewed the supporting evidence behind council tax discounts and exemptions applied in 2015/16 for each of the three Councils, and identified the following:

HBBC

2/20 discounts were not supported by appropriate evidence (1 long term empty, 1 empty unoccupied and unfurnished).

4/20 discounts did not have evidence of review within an appropriate time frame (1 empty unoccupied and unfurnished, 3 disabled).

2/20 exemptions were not supported by appropriate evidence (1 person in hospital/care home, 1 occupied by students).

3/20 exemptions did not have evidence of review within an appropriate time frame (1 occupied by students, 2 all occupiers aged under 18).

HDC

2/20 discounts were not supported by appropriate evidence (1 empty class B, 1 disabled).

3/20 exemptions were not supported by evidence and were not reviewed within an appropriate time frame (1 occupied by students hall of residence, 1 unoccupied annexes, 1 liable person in detention).

NWLDC

No issues were identified with discounts.

6/20 exemptions did not have evidence of review within an appropriate time frame (2 occupied only by severely mentally impaired, 1 person in hospital/care home, 1 left empty by deceased, 1 awaiting occupancy by clergy, 1 all occupiers aged under 18).

Management Response

Explanation as to why these have failed, and action that has been taken:

Fail due to single person discount – the system sets a review date 12 months ahead of the date applied. However, a review date is not really relevant as we undertake a single person review by using an outside agency and all the discounts will be sent in a file irrespective of date. We undertake a bi-annual NFI data match exercise in addition to another procured review with an external company i.e. Datatank. The next external review is being procured by HDC and this is likely to take place in summer 2016.

Fails due to review dates on exemptions – all exemptions are given a set time in the system parameters for inspection; these are updated annually and are consistent across the partnership. Irrespective of the review date entered the properties will come off for inspection governed by the parameters.

Long term empties – these are picked up by our inspectors and the outside agency (capacity grid) they are not governed by review dates but parameters.

Empty/unoccupied and unfurnished – these will be picked up by inspections and they are moved on by the auto cease discount report. A programme of inspections in respect of discounts and reviews is currently being undertaken.

50% discounts (old class As) – these are ceased automatically by the auto cease discount report after 12 months. (Usually they are entitled to the full 12 months even if they finish the work slightly earlier).

Implications

Discounts and exemptions are awarded without appropriate basis, causing financial loss to the Councils. Discounts and exemptions continue to be awarded when circumstances have changed.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	Assessors will be reminded of the need to ensure the required evidence is obtained before awarding discounts and exemptions. Reviews should be carried out as soon as they become due. Management has been provided with a list of the cases identified above. This should be reviewed by Team Leaders and followed up as necessary.	Sue Williams-Lee <i>Target date:</i> Immediately <i>Reference number:</i> CTo2

3. Council tax: reconciliation to VO listing – operating effectiveness

Finding

We tested 5 weekly reconciliations between Academy and the Valuation Office listing for each Council.

It was not possible to tell that reconciliation had been performed in some cases since the number of properties per Academy had not been recorded. This applied to 1/5 (HBBC), 2/5 (NWLDC) and 3/5 (HDC) weeks tested. We understand from staff that if Academy balances to the VO listing this is often not documented.

There was no signature or date recorded for any of the HBBC or NWLDC reconciliations tested. 1/5 reconciliations tested for HDC had not been signed and 4/5 had not been dated. In some of these cases there was annotation to demonstrate that reconciliation had taken place, however it was not clear whether this was timely and

carried out by an appropriate member of staff.

Management Response

This does not confirm the reconciliations have not been undertaken in a timely manner. Though it does confirm they have not all been signed and dated.

Implications

If reconciliations are not performed there is a risk that not all properties are identified in a timely manner. If not all properties are identified and billed, this may result in monetary loss for the Councils.

Action plan

Finding rating



Low risk

Agreed action

Reconciliations will be signed by an appropriately senior person and dated.

Responsible person / title

Sue Williams-Lee

Target date:

Immediately

Reference number:

CTo3

4. NNDR: inspections – operating effectiveness

Finding

Empty properties are awarded exemption from business rates for a period of 3 months or more. We tested properties claiming exemption from NNDR and identified the following:

- HDC: 1/20 properties had not been inspected to confirm the property was empty (exempt empty rate industrial property).
- NWLDC: 2/20 properties had not been inspected to confirm the property was empty (1 exempt empty rate industrial property, 1 exempt empty rate de minimis

RV).

- HBBC: no issues were identified.

Management Response

The audit has identified a problem with the report that extracts the information for inspectors. This has been investigated, and resolved.

Implications

Failure to inspect properties promptly may result in exemptions being granted when a property does not qualify.

Action plan

Finding rating



Low risk

Agreed action

All properties applying for the empty exemption should be inspected to confirm that they qualify.

The completion of inspections should be monitored on a regular basis.

Responsible person / title

Clare Sewell

Target date:

Immediately

Reference number:

NDR01

5. NNDR: reconciliation to VO listing – operating effectiveness

Finding

We tested 5 weekly reconciliations between Academy and the Valuation Office listing for each Council.

It was not possible to tell that a reconciliation had been performed for 2/5 HBBC cases since the number of properties per Academy had not been recorded.

There was no signature or date recorded for 5/5 (HBBC), 3/5 (NWLDC), and 2/5 (HDC) reconciliations. In most of these cases there was annotation to demonstrate

that a reconciliation had taken place, however it was not clear whether this was timely and carried out by an appropriate member of staff.

Management Response

This does not confirm the reconciliations have not been undertaken in a timely manner. Though, does confirm they have been not all been signed and dated. All have been subsequently checked and were actioned appropriately, and in a timely manner, the report details a date and time at the bottom left hand corner.

Implications

If reconciliations are not performed there is a risk that not all properties are identified in a timely manner. If not all properties are identified and billed, this may result in monetary loss for the Councils.

Action plan

Finding rating



Low risk

Agreed action

Reconciliations will be signed by an appropriately senior person and dated.

Responsible person / title

Sue Williams-Lee

Target date:

Immediately

Reference number:

NDR02

6. Housing benefits: reporting accuracy performance – advisory

Finding

Monthly Partnership Management Board meetings are held and board reports contain detail on performance against processing targets for new claims and changes in circumstance. A percentage of claims processed are checked for accuracy each month, however the results of this testing are reported to the Board.

Recommendation

Consideration should be given to reporting accuracy measures to the Partnership Management Board.

Management Response

The partnership is required to have a local management checking regime in place. To this end the partnership uses the Academy QA module which is run on a monthly basis. The results from the QA testing are output on an individual basis. It would be extremely time consuming to present this data and results may be misleading.

The monthly performance report that is presented to the Management Board details a “foreword” drafted by the Benefits Operational Manager. This identifies all actions being taken where quality issues have been identified and this will continue to be done. Additionally, there is a significant amount of additional quality testing that takes place during the Housing Benefit Subsidy Audit.

7. Housing benefits: processing targets – advisory

Finding

The Partnership Management Board has set the following targets for processing housing benefit claims:

- New claims: 19 days (1 day for ‘gold standard’ claims where all required evidence is provided by the claimant at the time of application)
- Change of circumstances: 9 days

These targets are not currently being met and performance stands at 20 and 11 days, respectively.

We have reviewed national average processing times (provided by the Department for Work and Pensions) and identified these to be, for the year to July 2015:

- New claims: 23 days
- Change of circumstances: 9 days

The target set for processing new claims is relatively stringent in comparison with the national average. We are aware that there have been some quality issues identified in the 14/15 subsidy claims, and it is possible that this target may be a contributing factor.

Recommendation

The Partnership Management Board should consider whether quality issues could be partially addressed by relaxing the target for processing new claims to be more in line with the national average.

Appendix 1. Basis of our classifications

Individual finding ratings

<i>Finding rating</i>	<i>Assessment rationale</i>
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; 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; 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; 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; 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>

Report classifications

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

<i>Findings rating</i>	<i>Points</i>
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

<i>Report classification</i>	<i>Points</i>
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 2. Terms of Reference

Terms of reference – Council Tax, National Non-Domestic Rates and Housing Benefits

To: Sally O’Hanlon, Head of Leicestershire Revenues & Benefits Partnership

From: Kate Mulhearn, Internal Audit Senior Manager

This review is being undertaken as part of the 2015/2016 internal audit plan approved by the Finance, Audit and Performance Committee on 13th April 2015.

Background

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, however this work 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.

Scope

We will review the design and operating effectiveness of key controls in place relating to the Collection Fund. We will also review the design of key controls over Housing Benefits. The sub-processes and related control objectives included in this review are:

Collection Fund

Sub-process	Control objectives
Valuation	<ul style="list-style-type: none">All properties are correctly identified, valued and billed to ensure maximum revenue is received. The totals reconcile to the Valuation Office Directions.
Accounting for Council Tax and Business Rates	<ul style="list-style-type: none">Reconciliations between the Revenues system (Academy) and the Financials system are performed and reviewed.Reconciliations between the Revenues system and cash collection system are performed and reviewed.
Discounts and Exemptions	<ul style="list-style-type: none">Discounts and Exemptions are applied to accounts on an accurate and timely basis and are reviewed regularly.
Input of base data	<ul style="list-style-type: none">An independent review of the accuracy of bandings (Council Tax) and the 2015/16 multipliers (NNDR) is evidenced.

Recovery, enforcement and collection	<ul style="list-style-type: none"> Outstanding income is collected and action taken against non-tax payers.
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Housing Benefits

Sub-process	Control objectives
Parameters	<ul style="list-style-type: none"> Housing Benefit payments are accurate.
New claims/change in circumstances	<ul style="list-style-type: none"> All claims are supported by appropriate evidence in accordance with benefits regulations.
Quality checks	<ul style="list-style-type: none"> Claims are correctly processed by assessors in compliance with procedures.
Accounting for Housing Benefits	<ul style="list-style-type: none"> Reconciliations between the Housing Benefits system and supporting systems are performed and reviewed.
Overpayments	<ul style="list-style-type: none"> Overpayments are monitored to minimise debts and recovered on a timely basis to maximise income for the Council.

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Council Tax, National Non-Domestic Rates and Housing Benefits, 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; 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 shall 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.



In the event that, pursuant to a request which Hinckley & 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 & 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 & 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 & 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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