

# Final Internal Audit Report

## Housing Benefit

June 2020

**Distribution:** Executive Director of Resources and Monitoring Officer (Final only)  
Director of Finance, Investment and Risk and S151 Officer  
Head of Payments, Revenues, Benefits and Debt  
Benefits Manager

Assurance Level	Identified Issues	
Substantial Assurance	Priority 1	0
	Priority 2	1
	Priority 3	1

### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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## 1. Introduction

- 2.1 For most working age claimants, Housing Benefit (HB) is being phased out in favour of Universal Credit (UC). Most working aged claimants already on HB who have a change in circumstances, have moved to UC (this is referred to as 'natural migration'). A 'managed migration' process is now underway for existing claimants on HB who do not experience a change in circumstances. The department for Work and Pensions (DWP) plans to fully migrate existing working age HB claimants to UC by 2023, with the exception of those in receipt of the severe disability premium.
- 2.2 Housing Benefit is administered by local authorities, whereas UC is administered directly by the DWP. Accordingly, the migration to UC has resulted in a reduced number of HB claimants, and consequently, a reduction in the size of the Council's Housing Benefit Team.
- 2.3 The Income & Housing Benefits Teams are responsible for the assessment and administration of benefit claims, payments to claimants, recovery of overpayments and reconciliations between the benefits system and the council tax, housing rents and financials systems. The teams use the Northgate iWorld application for the administration of HB and Iclipse documents management application.
- 2.4 Prior to April 2019, the Housing Benefit Team made use of HMRC Real Time Interface (RTI) to update claimant's income details. The external Housing Benefit Assurance Process (HBAP) for the financial year 2018-19 identified that a majority of RTIs examined had been incorrectly processed, resulting in the misclassification of overpayments. In one overpayment category 77.5% of sampled overpayments had been partially or wholly misclassified. This misclassification has implications for the subsidy that the Council is able to claim from the DWP for these overpayments. Discussion with the Housing Benefits team identified that responsibility for these misclassifications lay with an external provider that was previously contracted to process Croydon HB claims. The processing of claims has since been taken fully in-house. Additionally, HMRC RTIs are no longer received or used by the Housing Benefit team and the total extrapolated value was only £28,189 and consequently, no issue has been raised in this report regarding the processing of RTIs.
- 2.5 This audit was undertaken as part of the agreed Internal Audit Plan for 2019/20. It was also carried out as part of our annual review of key financial systems and used as a source of assurance by the Council's external auditors.

## 2. Key Issues

### Priority 2 Issue

No record was kept of the additional checks on higher value BACS payments, (**Issue 1**).

The Priority 3 issue is included under item 4.

3. Action and Key Findings/ Rationale

<b><u>Control Area 4: Payments</u></b>						
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 1</b>				
2	<p>We do currently check all BACs payments over £1000 due to go out, the team managers check them every morning before the payments are made, and stop any going out that we believe are wrong. These record incorrect cases against the officer who took the action that resulted in the incorrect payment being created. The risk of incorrect payment going out is low as we record all incorrect cases.</p> <p>Going forward there will also be a record of all correct checks carried out.</p>	<p>In order to help prevent incorrect HB payments being made, all BACs payments over £1,000 and all cheque payments over £5,000 are subject to additional checks prior to being paid. An important element of such checks is in ascribing personal responsibility for a payment to an officer, allowing the Council to demonstrate due diligence, and allowing for investigation if it is later discovered that the payment should not have been made.</p> <p>It was found that there was no systematic record that the checks on BACs payments over £1,000 by the Quality Assurance team had taken place, or which officer carried out the checks.</p> <p>Where checks on BACs payments over £1,000 are not appropriately recorded, there is a risk that checks are missed and that inappropriate high-value overpayments may be made that the Council may be unable to recoup.</p>				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Benefits Manager</td> <td>Already implemented</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Benefits Manager	Already implemented	
<b>Responsible officer</b>	<b>Deadline</b>					
Benefits Manager	Already implemented					

#### 4. Priority 3 Issues

Action Proposed by Management	Findings
<p>1) The target of 25 is an internal target that we set ourselves as a stretch target to the DWP national measure of 30 days.</p>	<p>The Housing Benefits team has a target of 25 working days to process new HB claims, a more ambitious target than the DWP's recommended target of 30 working days.</p> <p>In all months from July to November 2019, the average time taken to process new claims missed the Council's internal target, although it met the DWP's target in October 2019.</p> <p>The more promptly claims are processed, the less risk that claimants may face financial hardship and fall into arrears over rent.</p>

## TERMS OF REFERENCE

### Housing Benefit

#### 1. INTRODUCTION

- 1.1 Housing Benefit is being replaced by Universal Credit, with most new applicants for support being provided with Universal Credit. Most working aged claimants already on Housing Benefit who have a change in circumstances, have had to move to Universal Credit (this is referred to as 'natural migration'). A 'managed migration' process is now commencing for those on Housing Benefit without a change in circumstances. The plan is to fully transition working age claimants from Housing Benefits to Universal Credit by 2023.
- 1.2 Housing Benefits are administered by local authorities, whereas Universal Credit is administered by the Department for Works and Pensions (DWP).
- 1.3 The Income & Housing Benefits Teams are responsible for the assessment and administration of benefit claims, payments to claimants, recovery of overpayments and reconciliations between the Benefits System and the Council Tax, Housing Rents and Financials systems. The teams use the Northgate iWorld application for the administration of housing benefits and Iclipse documents management application.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20. It is also carried out as part of our annual review of key financial systems and used as a source of assurance by the Council's external auditors.

#### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

#### 3 SCOPE

- 3.1 This audit examined the Council's arrangements for Housing Benefits and included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Backdated Benefit	0	0	0
Discretionary Housing Payments	0	0	0
Appeals	0	0	0
Payments	0	1	0





Housing Benefit 2019/20

Overpayments and Recovery	0	0	0
Performance Monitoring	0	0	1
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>

## DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.



## STATEMENT OF RESPONSIBILITY

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

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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