

**GOVERNANCE AND AUDIT COMMITTEE
22 MARCH 2011**

**CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT:
HOUSING BENEFIT AND COUNCIL TAX SUBSIDY AND HOUSING BENEFIT
INTERNAL AUDIT REPORT 2010/11
Director of Environment, Culture and Communities**

1 PURPOSE OF DECISION

- 1.1. The purpose of this report is to provide Committee with a commentary on the findings of the 2009/10 Audit of the Housing and Council Tax Benefit Subsidy and to re-assure members of the actions taken and proposed in response of the findings. In addition the report appraises members of the second internal audit report of the Housing and Council tax benefit system following the transfer between the Pericles and Northgate systems, the first part being pre-transfer between the two systems.

2 RECOMMENDATIONS

- 2.1 That the action plan proposed in response to the findings of the certification of the housing and council tax subsidy claim be noted.**
- 2.2 That the proposed actions in response to the internal audit report of the housing benefit service post implementation of the new Northgate system be noted.**

3 REASONS FOR RECOMMENDATIONS

- 3.1. The certification of the claim for Housing and Council Tax Benefit Audit found a significant number of errors when testing cases. Governance and Audit Committee were appraised of this at their September meeting and while the final audit shows an improved position from what was reported at that time errors still remain. The audit indicates the potential loss of subsidy of £60,000 against a total subsidy claim of £34 million
- 3.2. Nevertheless, there are issues identified that require a management response. The findings broadly fall into two categories, criticism of quality of work and shortcomings in the support of the audit that took place over the summer and early autumn of 2010.
- 3.3. The internal audit report is the second part of the audit following the transfer between the Pericles and Northgate systems. The report and recommendations may be utilised in the external audit for 2010/11.
- 3.4. Members will be aware of the Audit Commission inspection of the Benefit Service in 2009/10 which judged the service to be fair with promising prospects for improvement. The recommendations from the audit will build on that position.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There is no alternative to the proposed actions. If the issues identified are not addressed there is a risk to the Council that Local Authority error will lead to future certification of the claim and loss of subsidy. The Council claims over £34 million of Housing and Council Tax Subsidy and therefore the impact of the loss of subsidy can be substantial.

5 SUPPORTING INFORMATION

Certification Report and Action Plan

- 5.1 The certification report and associated Action Plan are attached as Appendix A to this report. Appendix B of this report is the proposed action plan in response to those recommendations. Some of the actions will have been completed by the time Members receive this report.
- 5.2. From the initial discovery sample the auditors found a majority of claims had errors and this is significant management concern.
- 5.3. The first area where errors were found was in the setting of parameters in the system to calculate benefit and thus subsidy. Of particular concern was the fact that an error in one parameter identified in the 2008/9 audit had not been corrected in time for the 2009/10 audit. The correction was not in the gift of the Council to make and relied upon the software supplier to perform. Members will be aware that the supplier of the Pericles system had been purchased by Northgate thus the need for the Council to seek an alternative system as Pericles was not going to be supported in the future. Northgate were continually chased to provide the necessary resolution to the parameter setting from when it was identified. However, there is a concern that this was not escalated beyond operational level both in the Council and Northgate.
- 5.4 At the time of writing this report the action contained in the action plan accompanying the audit has been completed in that the parameters have been checked by the officer leading the year end process then the Benefit Service Manager and subsequently by the Chief Officer against the relevant circular. Moreover, it should be noted that the recent housing and council tax benefit audit (March 2011) at Appendix C undertaken on the transfer of benefit IT systems has found that when checking the parameters in the new Northgate system they were found to be correct and no recommendations were made.
- 5.5 The second area where errors were found was in misclassification of expenditure. In the first case this referred to staff miss-classifying expenditure in terms of assigning expenditure to the incorrect cell in particular council tax benefit. There was inconsistency in the assessment officer actions. This should have been picked up by more rigorous checking and supervision to identify the problem earlier and offer support and training.
- 5.6 Meetings have taken place with the Benefit Service Management Team and the whole service to reinforce the importance of accuracy in classifying expenditure. Staff undertook training on the 3 and 4 March 2011. A new quality checking regime has been put in place for benefit assessments. Staff have been advised that the failure to achieve the required level of quality will result in the operation of the Council's Capability Procedure.
- 5.7 The audit also found wrong classification of non-Housing revenue account rent rebate expenditure. The classification has now been checked and a new process is in

place between the Housing and Benefit Services to ensure correct classification takes place in the future. The recent audit (March 2011) of the new system checked change of circumstances, new applications, backdated awards and found the items checked to be satisfactory and made no recommendations.

- 5.8 The next area identified was earnings miscalculation and lack of supporting information. Again this points at quality of work and has been addressed by the actions mentioned in the previous paragraphs. Staff have already been reminded of the need to improve the recording of their decisions in the checklist provided when they assess a claim. Training requirements will be identified via the new supervision process. Checking of all high value payments and all of the work of new members of staff is in place. A target is in place to check 10% of all assessment work and quality targets of 99% for financial error and 98% for procedural error.
- 5.9 It is intended to review the level of management resource devoted to ensuring the correct level of quality is achieved in the assessment function. The capability of the management of the Benefit Service will be reviewed in line with the Council's Performance Improvement and Capability Procedure. It has been agreed that random internal audits of benefit assessment will be undertaken in the first quarter of 2011/12. This will compare assessment activity against the checklist as well as ensuring that expenditure is recorded in the correct cells. All internal reports will be presented to the Director and Chief Executive until the target level of accuracy has been achieved.
- 5.10 The next area refers to supporting the work of the audit. The availability of experienced staff to support the audit in the last financial year was impacted by the benefit system transfer from Pericles to Northgate.
- 5.11 It is worth noting that in the financial year 2010/11 the Benefit Service was subject to eight separate internal/ external audits, a full and detailed inspection from the Audit Commission and the transfer of IT systems. Although agency staff were employed to back fill during the system transfer process they did not have the same detailed knowledge of the directly employed staff who were working on the system transfer. Whilst it is regrettable that the level of support for the audit from experienced staff was not available at the appropriate time those staff were promoted to work on the IT system transfer which was seen as priority.
- 5.12 So as to support the 2010/11 audit the relevant managers have received training on the new Northgate system. The audit for 2010/11 has already begun and a programme of support for the auditors has been agreed.

Housing Benefit Internal Audit Report

- 5.13 Appendix C contains the internal audit report on the Housing and Council Tax Benefit system. This is a part 2 audit following on from the previous audit prior to the transfer from the Pericles to the Northgate system. The audit has provided an overall limited assurance on controls in place for the Housing and Council Tax Benefits systems.
- 5.14 There are three priority one recommendations which generate the limited assurance opinion. These refer to data migration, debt collection and general ledger reconciliation.

Data Migration

- 5.15 It has not been possible to provide overall assurance that the data migration from Pericles to Northgate took place in line with controls. It is accepted that the requisite checking of all transferred data where there was an error in excess of 10 pence on the claim was checked and corrected. Through testing of individual benefit cases no discrepancies were found but the auditors were not satisfied that reconciliation had taken place as demonstrated in the records of checking and amending.

Debt Collection

- 5.16 The debt module on the Northgate system was not operational at the time of the audit. The delay in implementing the module was due to the need for the supplier to run a script to correct information from the data transfer and this did not take place until the 11 February. It was recognised that the existing process for debt recovery was unchanged. Any debt created in the new system was held in a suspense account pending the operation of the overpayment module and the issuing of invoices. However, customers who had received an overpayment had been written to advising them of this in advance of the issue of the invoices. The overpayments module went live on the 4 March and in week commencing 7 March invoices were generated.

General Ledger reconciliation

- 5.17 The audit confirmed that the reconciliation to the general ledger from the Northgate system had not been completed. Reconciliation should have taken place at the end of each month and it had not been possible to undertake this activity since October when the Pericles system was shut down.
- 5.18 Reconciliation requires successful operation of the overpayment module which was not operational until after 11 February as mentioned previously.. The completion of the year end process has delayed this action but it is anticipated that the reconciliation will be completed by the 11 March in the week commencing 21 March.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 If the auditor is not satisfied with our responses to her findings this could affect the subsidy paid to the Council. The Department for Work and Pensions decides whether to adjust the claim. The 2009/10 accounts showed the subsidy claimed so we could have to report any change at this stage in the 2010/11 accounts.

Qualification of a claim can also lead to the Department for Work and Pensions withholding current year (2010/11) subsidy payments. They have not withheld any 2010/11 payments so far. There is one more payment to go. If the Department withholds payments this affects the Council's cash flow but not our overall financial position at the year end because they will audit the 2010/11 claim in its own right.

Equalities Impact Assessment

- 6.3 An Equality Screening Form is included at Appendix D.

Strategic Risk Management Issues

- 6.4 Failure to address the issues contained in the audit may result in the Council losing subsidy for the benefit payments it makes. This report has commented on the progress made in implementing the action plan to address those issues.

Background Papers

Certification of claims and returns annual report Bracknell Forest Council Audit 2009/10
Housing and Council tax draft audit report March 2011

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