

Internal Audit

Key Financial Systems - Revenues and Benefits January 2015

Distributed to:

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1. Executive Summary

Introduction

The review of key financial controls has been agreed in the Internal Audit, CAFT and Risk Management Plan 2014-15.

This review focused on key controls in place across Revenues and Benefits.

Background & context

As part of this review we identified the key controls operating within Barnet's key financial systems and devised an overarching programme of testing across the different systems and processes to give assurance on the effectiveness of these key controls.

In the 2014/15 year we have refreshed our approach to this work by bringing a number of systems together under one test programme for which we have identified and agreed key controls to be tested. We confirmed and updated our understanding of the key controls in place through a number of planning workshops with the Customer Support Group (CSG) to ensure our work is up to date and relevant.

This report summarises the key financial controls audit work undertaken covering the period from 1 April 2014 to 30 September 2014 for the following areas:

- Housing Benefit
- Council Tax
- National Non-Domestic Rates (NNDR)

Our work has now been completed in line with the Terms of Reference dated 8th October 2014.

This report consists of three main sections:

- Parts 2&3 - Summary of Results and Summary of Issues sets out an overview of the findings for the period tested;
- Part 4 - Detailed Operating Effectiveness Results explains in detail the exceptions we found for each test area where we found non-compliance with the intended controls;
- Part 5 - Control Design Findings where we set out in detail issues where controls were not in existence or designed adequately to mitigate the risk identified. Our findings here include recommendations to management; and
- Part 6 - Follow up sets out the results of our follow up of the previous years' audit of Housing Benefit, Council Tax and NNDR.

2. Summary of results

Assurance rating and summary of issues

System		Summary of Issues	
Housing Benefit		Limited Assurance	<p><u>Design of controls</u> The BACs reconciliations do not currently record evidence of review or sign off or the employee preparing the reconciliation.</p> <p><u>Operation of controls</u></p> <p>Intervention process</p> <ul style="list-style-type: none"> 7/25 (28%) exceptions were found where the review form was not returned within one month of the intervention letter being sent out and so the housing benefit claim should have been suspended but was not. <p>Overpayments</p> <ul style="list-style-type: none"> 7/25 (28%) exceptions were found where outstanding debts have not been pursued since the final system generated letter was issued. 1/25 (3%) exception was found whereby no correspondence had occurred with the claimant outlining the proposed payment schedule. <p>Standing data</p> <ul style="list-style-type: none"> 1/20 (5%) exception found where the individual's access rights were not revoked after so instruction from management.
Council Tax		Satisfactory Assurance	<p><u>Design of controls</u> No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger for Council Tax.</p>

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System		Summary of Issues	
National Non-Domestic Rates (NNDR)		Limited Assurance	<p><u>Design of controls</u> No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger for NNDR.</p> <p>Empty property reviews are not currently being undertaken, we understand this is due to staff shortages and whilst the backlog of properties awaiting initial inspections is cleared. This was the case for the whole of the test period under review.</p>

3. Summary of issues identified

System	Number of controls tested	Number of controls where exceptions were found	Number of control design improvements
Housing Benefit	8	4	1
Council Tax	7	0	1
National Non-Domestic Rates (NNDR)	7	0	2
TOTAL	22	4	4

Analysis

18% of controls tested had instances of control operation failure and 18% of controls tested had instances of control design failure. The reconciliations between the NNDR and Council tax systems and the Integra system were not performed in the six month period from April to September. Although this is now being addressed, and reconciliation is being performed for the six month period, the fact that it has not operated on a regular basis is high risk as discrepancies between the two systems could have been outstanding for such a long period that reconciliation would be extremely difficult.

Follow up

We reviewed 5 priority 2 recommendations and found that 3 have now been implemented, 1 has been partially implemented and 1 has not been implemented. The recommendations that have not been fully implemented relate to reconciliations performed between the NNDR and Council tax systems to the general ledger, and NNDR property inspections.

4. Detailed Testing

1) Housing Benefits

Each control tested and any exceptions noted are illustrated in the table below.

Control Ref	Control Tested	Exceptions	Exception details
HB1	<p>Housing benefits assessment</p> <p>Verification is performed on all new applicants. The assessors use a checklist, which must be fully completed prior to a claim being processed.</p>	<p>0</p> <p>0%</p>	No Exceptions
HB2	<p>Discretionary housing payments</p> <p>New applications for discretionary housing payments (DHP) have been processed appropriately, with the required backing documentation evidenced and retained. They have been authorised correctly before payment.</p>	<p>0</p> <p>0%</p>	No Exceptions
HB3	<p>BACs run</p> <p>Reconciliations are performed between the Civica Open Revenues system and the Council's BACS payment system.</p>	<p>5</p> <p>100%</p>	Control design issue noted: see recommendation HB1.
HB4	<p>Sample check of claims</p> <p>A random sample check of new claims is tested daily, with a monthly accuracy report produced.</p>	<p>0</p> <p>0%</p>	No Exceptions

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Control Ref	Control Tested	Exceptions	Exception details
HB5	<p>Intervention process</p> <p>Individuals' circumstances are reviewed periodically (in particular, those who are self-employed), to identify where potential overpayments may be being made by the Council and/or fraudulent claims by recipients.</p>	<p>7</p> <p>28%</p>	<p>Out of a sample of 25 tested, seven exceptions were found where the review form was not returned within one month of the intervention letter being sent out and so the housing benefit claim should have been suspended but was not. We were told this was due to numerous system problems at the time when the reviews were generated.</p>
HB6	<p>Overpayments</p> <p>The debtor system within Civica Open Revenues automatically identifies overpayments in response to changes in circumstances, as processed by the HB assessors. The system follows the debt recovery procedures built in to the system.</p> <p>Overpayments that are not recoverable – a pro-forma is completed and approved, in line with the scheme of delegation.</p>	<p>8</p> <p>32%</p>	<p>Out of a sample of 25 tested, eight exceptions were found:</p> <p>Seven of the exceptions (with a total value of £24,511) relate to outstanding debts which have not been pursued by LB Barnet since the final system generated letter was issued. In all but one of the seven cases the time since the final correspondence with the claimant exceeded one month, with one case not followed up since May 2014. We understand that these exceptions are due to staff shortages in the housing benefits team.</p> <p>One exception was noted whereby no correspondence had occurred with the claimant outlining the proposed payment schedule. Deductions have been made from the claimant's subsequent housing benefit distributions for this overpayment despite the claimant not being informed.</p>
HB7	<p>Standing data</p> <p>Access controls are in place, with individual logins for the Civica Open Revenues system.</p>	<p>1</p> <p>5%</p>	<p>Out of a sample of 25 tested, one exception was found where an individual's access rights should have been revoked but this has not been performed.</p>

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Control Ref	Control Tested	Exceptions	Exception details
HB8	<p>Council Tax Support</p> <p>Any new individuals applying for the Council Tax Support (CTS) have checks performed prior to award.</p> <p>Reviews of those in receipt of CTS are carried out periodically.</p>	<p>0</p> <p>0%</p>	No Exceptions

2) Council Tax

Each control tested and any exceptions noted are illustrated in the table below.

Control Ref	Control Tested	Exceptions	Exception details
CT1	<p>Reconciliations</p> <ul style="list-style-type: none"> Reconciliations are performed by appropriate members of the finance team and reviewed by senior team members. Unreconciled items are promptly investigated and resolved. 	<p>Control design issue noted – unable to test</p>	<p>Control design issue noted: see recommendation “CT1 & NDR1”.</p>
CT2	<p>Valuation reconciliations</p> <p>Quarterly reconciliations are performed between the Valuation Office Agency amendment report and the Council Tax system (Civica Open Revenues) by an authorised officer to ensure that the rates charged for that period are correct.</p>	<p>0</p> <p>0%</p>	No Exceptions

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Control Ref	Control Tested	Exceptions	Exception details
CT3	<p>Dummy run performed</p> <p>On an annual basis, prior to the full run being completed, a dummy run is performed to test the uplifts and ensure that the bills have been produced correctly. This is checked and reviewed for accuracy, to ensure that the number of bills matches the full list of addresses.</p>	<p>0</p> <p>0%</p>	No Exceptions
CT4	<p>Discounts and exemptions, including Council Tax Support</p> <p>Individuals' circumstances are reviewed annually in the form of a request letter to identify where inappropriate discounts are being claimed. There is a specific annual review for those claiming the Single Person Discount (SPD).</p> <p>A plan to check all assessors' work internally is reviewed and updated periodically. Checks are performed and documented as audit evidence.</p>	<p>0</p> <p>0%</p>	No Exceptions
CT5	<p>Refunds are authorised</p> <p>Refunds are reviewed and authorised by an appropriate member of staff as per the scheme of delegation prior to this being processed.</p>	<p>0</p> <p>0%</p>	No Exceptions

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Control Ref	Control Tested	Exceptions	Exception details
CT6	<p>Aged debtor chasing</p> <p>Debts follow an automated process within the debtor system built in to Civica Open Revenues. Overdue debts are investigated and follow the set chasing method dictated by the debtor system.</p>	<p>0</p> <p>0%</p>	No Exceptions
CT7	<p>Authorisation of write offs</p> <p>Debts are written off annually following appropriate review and authorisation by the Council’s Policy and Resource Committee.</p>	Control not operated in the period	No testing performed in this period as the control was not required to be used within the designated testing period; no write offs were performed.

3) National Non-Domestic Rates (NNDR)

Each control tested and any exceptions noted are illustrated in the table below.

Control Ref	Control Tested	Exceptions	Exception details
NNDR1	<p>Reconciliations</p> <ul style="list-style-type: none"> Reconciliations are performed by appropriate members of the finance team and reviewed by senior team members. Unreconciled items are promptly investigated and resolved. 	Control design issue noted – unable to test	Control design issue noted: see recommendation “CT1 & NNDR1”.

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Control Ref	Control Tested	Exceptions	Exception details
NNDR2	Periodic reconciliations are performed between the Valuation Office Agency amendment report and the NNDR system (Civica Open Revenues) by an authorised officer to ensure that the rates charged for that period are correct.	0 0%	No Exceptions
NNDR3	Dummy run performed On an annual basis, prior to the full run being completed, a dummy run is performed to test the uplifts and ensure that the bills have been produced correctly. This is checked and reviewed for accuracy, to ensure that the number of bills matches the full list of addresses.	0 0%	No Exceptions
NNDR4	Discounts and exemptions Businesses' circumstances are reviewed annually in the form of a request letter to identify where inappropriate discounts are being claimed. A plan to check all assessors' work internally is reviewed and updated periodically. Checks are performed and documented as audit evidence.	Control design issue noted – unable to test	Control design issue noted: see recommendation NNDR2
NNDR5	Refunds are authorised Refunds are reviewed and authorised by an appropriate member of staff as per the scheme of delegation prior to processing.	0 0%	No Exceptions

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Control Ref	Control Tested	Exceptions	Exception details
NNDR6	<p>Aged debt chasing</p> <p>Debts follow an automated process within the debtor system built in to Civica Open Revenues. Overdue debts are investigated and follow the set chasing method dictated by the debtor system.</p>	<p>0</p> <p>0%</p>	No Exceptions
NNDR7	<p>Authorisation of write offs</p> <p>Debts are written off annually following appropriate review and authorisation by the Council's Policy and Resources Committee.</p>	Control not operated in the period	No testing performed in this period as the control was not required to be used within the designated testing period; no write offs were performed.

5. Control Recommendations

HB1- BACs run reconciliations

P	Detailed finding	Risk	Recommendation	
2	<p>We confirmed in a discussion with the Regional Council Tax Operations Manager that reconciliations are currently performed between the Civica Open Revenues system and the Council's BACS payment system on a twice weekly basis (BACS payment runs are made on Monday and Wednesday each week). However, the reconciliation does not currently have an adequate audit trail; the reconciliation is recorded in a running total fashion in an Excel spreadsheet with no evidence of sign off / review or record of who prepared the reconciliation.</p> <p>We have seen that for 5 of the reconciliations tested, the amount is deemed to reconcile correctly.</p>	<p>Inaccurate payments may be made to housing benefit recipients due to manual errors or system fraud; this may not be identified and rectified if reconciliations are not completed.</p>	<p>Reconciliations should be performed for each BACs run and should be authorised by a senior member of the team on a timely basis. Both preparer and authoriser should sign and date the reconciliation and archive it appropriately.</p>	
Management Response			Responsible Officer	Deadline
<p>Information was provided by finance that there is an additional function carried out within the finance team that covers what is required in the reconciliation, in that a member of the Accounts Payable team proposes, reviews and authorises the payment run. However, during the timescale of the audit, it was not possible to provide the auditors with evidence of this due to complications in extracting the data from the audit tables within the system. This is now in place and will be made available at the next review.</p>			<p>Regional Council Tax Operations Manager</p>	<p>January 2015</p>

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CT1 & NNDR1

P	Detailed finding	Risk	Recommendation	
1	No reconciliation has been performed from April 2014 to October 2014 between the General ledger system and its sub ledger Council tax and NNDR. We understand this is due to the implementation of the INTEGRA system which had a go live date of April 2014.	The amounts recorded in the General ledger could be misstated. Fraudulent accounting or human errors may not be identified and rectified.	A daily reconciliation should be performed and should be authorised by a senior member of the finance team on a timely basis. Both preparer and authoriser should sign and date the reconciliation and archive it appropriately.	
Management Response			Responsible Officer	Deadline
Agree that this has not occurred and actions are in place to rectify this and continue the reconciliations on a monthly basis. The delay has been due to resources and knowledge leaving the CSG team prior to the necessary knowledge required to undertake the reconciliations being imparted to the finance team; we have had to build up that knowledge and this has led to the delays in the monthly reconciliations being undertaken.			Assistant Director of Finance, CSG Revenues & Benefits Operations Manager	January 2015

NNDR2- Discount and exemption reviews

P	Detailed finding	Risk	Recommendation	
2	<p>There are currently 5 discounts/exemptions available to businesses paying NNDR within Barnet. These are Mandatory Rate Relief, Discretionary Rate Relief, Empty Rate Relief, Small Business Rate Relief and Retail Rate Relief.</p> <p>For Empty Rate Relief, properties are inspected upon initial application for the exemption and are thereafter reviewed on a 6 monthly basis. Due to a lack of staff empty property reviews are currently not being undertaken whilst the backlog of properties awaiting initial inspections is cleared. As such the control was not tested as it is not operating effectively within the designated testing period...</p>	<p>Businesses may be claiming discounts that they are not entitled to resulting in financial loss to the Council.</p> <p>Discounts and exceptions processed could be done so inaccurately due to human errors or fraudulent behaviour; this may not be identified and rectified.</p>	<p>The current schedule of reviews should be looked at to ensure that it can be realistically completed with the current resource model. If this is not possible, then more resource should be considered.</p> <p>If it is not possible to higher more resource to perform the reviews, then a prioritisation schedule should be put in place to ensure that higher risk properties are being reviewed in a timely manner.</p>	
Management Response			Responsible Officer	Deadline
<p>More resource is currently being recruited with positions for 1.5 property inspectors currently being advertised. Until these positions have been filled the higher value properties and the initial reviews will take priority.</p>			<p>NNDR Manager</p>	<p>April 2015</p>

Timetable	
Terms of reference issued	26 September 2014
Fieldwork completed	06 October 2014
Draft report issued	10 November 2014
Management responses received	14 January 2015
Final report issued	21 January 2015

6. Follow up

As part of the review we have also followed up issues raised in previous reviews performed for Council Tax, NNDR and Housing Benefits. The results of this follow up are noted below.

1.1. Council Tax bill inhibits

P	Detailed finding	Recommendation	Management Response
2	We tested six council tax inhibits whereby council tax bills are temporarily suppressed for a variety of reasons such as a query on the account or whilst awaiting further information. We found that there was no clear reason recorded for one inhibit in our sample (17%), which was placed on the account for two weeks.	Management should ensure that officers record reasons for inhibits.	Agree there should have been a clear indication of why the bill was inhibited, further investigation shows this was due to a Council Tax Benefit assessment.
Follow up work performed			Conclusion
From discussions held with the Revenues Operations Manager we have been able to see that management have implemented a system of indicating why bills were inhibited. We have performed a walkthrough on a random sampled inhibit and have confirmed that this is now the case.			Recommendation implemented

1.2. Money laundering & referrals to CAFT

P	Detailed finding	Recommendation	Management Response
2	<p>We tested six council tax refunds. In one (17%) of our sample, there was a bank error and the Council received £2,667.00 instead of £26.67. During testing, it initially appeared that this was a possible case of money-laundering which should have been referred to the Corporate Anti-Fraud Team. However, after investigation, this was confirmed as a banking error which was not noted on the system.</p>	<p>The Team should keep abreast annually of the Counter Fraud Framework either by repeating e-learning tests or by considering CAFT run training sessions where appropriate. Management should ensure that appropriate system notes are made so that reasons for refunds are clear to all system users</p>	<p>Agreed that updating the accounts with information via notebooks is important. Staff and managers are aware of the money laundering framework and this is taken into account when authorising refunds by managers. However annual sessions would be useful especially with regards to changing personnel in the coming months.</p>
Follow up work performed			Conclusion
<p>We have seen that training is now in place and have reviewed evidence that annual training is performed by all staff involved and that compliance is monitored by management. We have also tested as part of the review the council tax refunds where we have found no exceptions (CT5).</p>			<p>Recommendation implemented</p>

2.1. NNDR policies and procedures

P	Detailed finding	Recommendation	Management Response
2	<p>For council tax and housing benefits, there are how-to guides (with screenshots from Open Revenues) and guidance notes (detailing the processes and procedures) which are stored in the training administration folder which is accessible to all staff, but password protected so unauthorised changes cannot be made. All guidance is dated.</p> <p>Work on an NNDR manual has started, with the same contents of screenshots & process notes, however this has not concluded.</p>	<p>The NNDR how-to system guides and guidance notes should be completed and made available to all staff.</p>	<p>The policies and procedures were last updated in March 2012 and are kept in the shared drive. All changes in legislation are forwarded to the team by the line manager. The training and quality team are responsible for the procedure manual but due to the current climate they have not been able to recruit an NNDR resource to maintain this, but the team ensure staff are kept abreast of changes.</p>
Follow up work performed			Conclusion
<p>Evidence has been provided that the system notes are now created and are readily available for all members of staff. The system notes were updated by December 2013 and are now placed on the shared drive so that all staff who require access are aware and have access to it</p>			<p>Recommendation implemented</p>

2.2. NNDR property inspections

P	Detailed finding	Recommendation	Management Response
2	<p>We tested fifteen granted applications for NNDR relief and exemptions. All evidence to support the applications was produced in line with requirements to support validity of the exemption or relief. However, in four (27%) of our sample, property inspections had not taken place due to a lack of inspectors. This may result in reduced rates of NNDR being granted where there is no continuing entitlement to the exemption or relief. The need to maintain an appropriate programme of inspection was raised as a recommendation during the previous audit in 2012/13.</p>	<p>Management should ensure that an appropriate programme of inspection takes place.</p>	<p>Again due to our current situation, we have not been able to continuously fill our inspection post; however we have mitigated this by obtaining an external resource to deal with the 750 plus NNDR inspections. They are due to start shortly and this will clear outstanding inspections.</p>
Follow up work performed			Conclusion
<p>As part of the current review for this period, we have performed testing of this control; we found that the initial inspections are now being undertaken. However, the follow up inspections are not being undertaken due to the fact that the inspector has not been able to clear the current backlog of initial inspections to perform the follow ups.</p>			<p>Recommendation partially implemented</p>

3. Reconciliations

P	Detailed finding	Recommendation	Management Response
2	<p>We tested nine key monthly reconciliations. In one (11%) of our sample, the selected month (April 2013) had not been reconciled at date of testing (28 June 2013). Our enquiries showed that the reconciliation, which balances Rent Allowance from Open Revenues to SAP, had not been completed and signed off since November 2012 due to staff shortages within the Control Team.</p> <p>In a further two (22%) reconciliations in our sample, Cash balancing – NNDR and Council Tax Monthly Refund Reconciliation, we found that the reconciliations had been undertaken and signed by an officer but not signed off by a manager, in accordance with procedure. One of the sample was signed off subsequent to the initial audit testing and produced for us.</p>	<p>Management should ensure that reconciliations are completed and signed off in a timely manner.</p>	<p>A similar reconciliation to “Rent Allowance from Open Revenues to SAP” is produced for the management accountant every month, which mitigates the risk identified here.</p>
Follow up work performed			Conclusion
<p>As part of the review for this period we have performed testing of this control. We have seen that due to the implementation of the new INTEGRA accounting system (the replacement for SAP) that no reconciliation has been performed for the period from April to August 2014 between Council Tax system and the general ledger, and separately, the NNDR system and the general ledger</p>			<p>Recommendation not implemented</p>

Appendix A: Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below:

- The matters raised in this report are only those which came to our attention during the course of our internal audit 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 internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.
- Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents.
- Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

	Substantial Assurance	There is a sound system of internal control designed to achieve the system objectives. The control processes tested are being consistently applied.
	Satisfactory Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.
	Limited Assurance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the system objectives at risk.
	No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Priorities assigned to recommendations are based on the following criteria:

1. **High** – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
2. **Medium** – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 – 6 months.
3. **Low** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.