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Internal Audit Report 2017/2018

Revenues and Benefits Partnership

*Hinckley & Bosworth
Borough Council*

FINAL

June 2018

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Contents

Executive summary

1 

Current year findings

2 

Appendices

- A. Basis of our classifications
- B. Terms of reference
- C. Limitations and responsibilities

Distribution list

For action:	Sally O’Hanlon, Head of Leicestershire Revenues and Benefits Partnership
For information:	Audit Committee Ashley Wilson, Section 151 Officer

Executive summary (1 of 2)

Report classification



Low Risk (5 points)

See Appendix for a breakdown of points calculation

Trend

This is an improvement based on the prior year (16 points), but the scope is very different.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	0	1	0
Operating effectiveness	0	0	0	4	0
Total	0	0	0	5	0

Executive summary (2 of 2)



Headlines/summary of findings

This review has focused on providing assurance to the Partnership around the proper application of controls in relation to the Council Tax and NNDR processes. The outcome is a report with a low risk rating, as there were 5 low risk findings.

Exemptions and discounts

The Partnership has appropriate policies and procedures in place for managing exemptions and discounts. We do suggest that the practice of allowing discounts when a property becomes vacant following a phone call only is reviewed.

Most procedures are operating effectively, but 11 of 25 Council tax exemptions and discounts tested had not had their annual review. In our testing of 25 business rates exemptions and discounts, 2 had not had a review of circumstances.

Reconciliations

Reconciliations between the Academy system and financial systems are performed by the individual Councils and not by the Partnership. On a monthly basis the figures for Council Tax and Business Rates are shared with the respective finance teams to reconcile. Since this process is undertaken by the individual finance teams we have not performed testing over these reconciliations.

As part of our financial audit at Hinckley & Bosworth Borough Council we have tested that these reconciliations are taking place on a timely basis, and that the reconciliations are reviewed and variances are investigated, and no exceptions were noted.

There are appropriate policies and procedures in place. We found some were not always followed completely.

There are weekly reconciliations to reports from the Valuation Office to ensure that property records are complete. 4 of the 15 reconciliations had no evidence of review, and there had been delay in 3 cases.

There is daily reconciliation of the finance system to cash collected by the Business Development Team. 5 of the 60 Council Tax reconciliations and 1 of the 60 Business Rate reconciliations had no evidence of review.

Risk based verification

We have also undertaken analysis of the application of risk based verification and provided further comments within the content of this report.

We would like to thank all the staff involved for their help in supporting the internal audit review.

Current year findings (1 of 5)

Valuation Office reconciliations

Operating Effectiveness

1

Finding rating

Rating

Low

Finding and root cause

A Valuation Office schedule is received every week by the Leicestershire Revenues and Benefits Partnership which details any new properties, any amendments to bands of properties and any deleted properties in relation to both Council Tax and Business Rates. On a weekly basis a reconciliation is performed to agree the schedule to the Academy system and reviewed. Our testing identified that for the Council Tax reconciliations:

- 4 of the 15 reconciliations, 3 Harborough and 1 Hinckley & Bosworth, there was no evidence that the reconciliation had been performed; and
- 3 of the 15 reconciliations, 2 Harborough and 1 North West Leicestershire were delayed in being reviewed. The delays were between 55 and 80 days.

No issues were identified with the Business Rates reconciliations demonstrating a strong control environment.

Implications

New properties may not be identified on a timely basis to ensure maximum revenue.

Action plan

Since the audit finding was raised staff dealing with VO schedules have been reminded to print the system / VO totals and balance and seek sign off of the reconciliations in a timely manner.

Responsible person/title:

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

Target date:

Already completed since the finding was identified

Current year findings (2 of 5)

Cash collection reconciliation

Operating effectiveness

2

Finding rating

Rating

Low

Finding and root cause

A reconciliation between the Academy system and cash collection is performed on a daily basis by the Business Development Team to ensure that cash is appropriately allocated on a timely basis. Our testing identified that for:

- 5 of the 60 Council Tax reconciliations, 4 Hinckley & Bosworth and 1 North West Leicestershire, there was no evidence that the reconciliation had been performed.

Implications

Variances between the Academy system and cash collected may not be identified and resolved on a timely basis.

Action plan

Evidence of reconciliations being reviewed should be retained to demonstrate the process is being adhered to.

Responsible person/title:

Leigh Butler

Target date:

July 2018

Current year findings (3 of 5)

Council Tax Exemptions and Discounts

Operating effectiveness

3

Finding rating

Rating

Low

Finding and root cause

The onus is on residents to inform the Council regarding any changes in their circumstances. However, every two years a review is performed - a letter is sent out to occupied properties currently in receipt of a discount or exemption to confirm that their circumstances have not changed and the applied exemption or discount remains appropriate.

Testing identified 11 of the 25 exemptions and discounts sampled where this annual review had not taken place. This related to 3 Hinckley & Bosworth Borough Council and 8 North West Leicestershire properties. Of these:

- 2 of the 11 did not have a review date included on the system;
- 4 of the 11 had a review date in the past, however this was incorrect and the system had not been updated; and
- 5 of the 11 had a review date recorded in the system which had passed but no review had taken place.

Implications

Discount and exemptions may continue to be awarded even though the property is no longer eligible.

Action plan

A full paper review will be completed for students and disabled reductions by the end of September 2018. Staff have been given clear instructions to add review dates then we can timetable in the reviews in conjunction with the systems team.

Responsible person/title:

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

Target date:

September 2018

Current year findings (4 of 5)

Business Rates Exemptions and Discounts

Operating effectiveness

4

Finding rating

Rating

Low

Finding and root cause

Individuals can contact the Partnership requesting an appropriate discount or exemption is applied to their account should they meet the criteria and can provide appropriate evidence.

An annual check is undertaken on unoccupied properties to ensure that the exemption from Business Rate charges remains appropriate. 2 of the 25 exemptions and discounts tested, 1 from North West Leicestershire and 1 from Hinckley and Bosworth Borough Council identified that a review of circumstances was due in November 2017. This had not been undertaken at the date of the audit fieldwork owing to a number of inspections being undertaken in relation to new properties by the inspection team.

Implications

Discount and exemptions may continue to be awarded even though the property is no longer eligible.

Action plan

Since the audit finding was identified as good practice staff have been reminded to ensure that there is always either a form or comprehensive notes are put on the account to show that we have verified the criteria before making the award. This will ensure that appropriate evidence is retained to substantiate the award of Business Rate discounts.

Support should be provided to the inspection team to ensure that an annual review of unoccupied properties is undertaken on a timely basis.

Responsible person/title:

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

Target date:

Already completed since the finding was identified

Current year findings (5 of 5)

Business Rates Exemptions and Discounts

Control Design

5

Finding rating

Rating

Low

Finding and root cause

Businesses are eligible to receive a number of different discounts and exemptions. In order to obtain an exemption where a property is empty individuals can telephone the Partnership and request such an exemption is applied. The Partnership will make a note on the system record of the phone call to evidence why the exemption has been applied. In all other cases a request is required in writing and consideration should be given as to whether a telephone call is sufficient to justify application of an exemption. In all instances tested a record of the phone call was recorded on the system to support the application of an exemption.

The onus is on businesses to inform the Partnership regarding any changes in their circumstances which may affect the receipt of discounts and exemptions. Although an annual check is undertaken on unoccupied properties we identified that there is equivalent check performed on occupied properties to confirm that discounts such as Small Business Rate and Charitable Relief remain appropriate.

Implications

Discount and exemptions may continue to be awarded even though the property is no longer eligible.

Action plan

A review of all SBR/Charitable cases is scheduled for the 2018/19 as is a promotion about eligibility for SBR.

It should be noted that the NFI are running a pilot around SBR fraud, this would be wider than any review we could undertake and if this or any other initiative is adopted we would not continue with the above scheduled work. Additionally the partnership have also signed up to a product offered by Destin to identify Small Business Rate Relief Fraud, this looks over the whole country not just the region.

Responsible person/title:

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

Target date:

March 2019

Risk Based Verification

Analysis

In November 2015 the Leicestershire Revenues and Benefits Partnership approved the purchase and implementation of Risk Based Verification software.

The Risk Based Verification Software has been purchased from Capita Business Services Limited with an initial set up cost of £7,500 and an annual charge of £15,500, initially for a period of 2 years.

The arrangement with Capita involves a partnership with Xantura who provide a risk score based on an algorithm based upon statistical analysis of different claims. The algorithm is recalibrated on a monthly basis following review of cases and results.

The Partnership has no visibility over factors which influence the risk score and anecdotal reports highlight that there is sometimes no correlation between expected risk level and the Xantura risk score. For instance, self employed income is seen as low risk whereas experience of officers would indicate this to be higher risk.

The original Joint Committee report stated the benefits of such products to be:

“improvement to processing times for benefit new claims and in 2016/17 will incorporate change of circumstances.”

Benefits are realised as each claim is risk scored into 3 groups to enable benefits officers to determine the level of verification based on the presented score.

- **Low Risk** - This means that the benefits officer is able to ‘fast track’ the determination so long as they have all the information to process entitlement plus evidence of identity.
- **Medium risk** - This means that the benefit officer will follow ‘business as usual’ verification processes before the claim is determined
- **High risk** - This means that claims will follow the verification at ‘Medium risk’ and may involve additional stated action e.g. a visit and 3 monthly reviews

The minimum standards of verification for each risk band were agreed in October 2016 as part of the RBV policy and are subject to annual review. As part of our audit last year, we reviewed the policy and confirmed it is fit for purpose and largely consistent with the approach undertaken by other authorities who have adopted RBV. We have identified that no formal review of the policy has occurred and we would encourage management to undertake this review to confirm that the policy remains relevant. From discussions with management it is felt that the policy does remain appropriate.

The original business case did not stipulate what proportion of cases are expected to be classified into each of the low, medium and high risk categories. However, Xantura’s risk model indicated:

Risk Based Verification

Analysis

The original business case did not stipulate what proportion of cases are expected to be classified into each of the low, medium and high risk categories. However, Xantura’s risk model indicated:

Risk band #	Risk level	Distribution of risk	Likelihood of finding error in the claim
1	HIGH	21%	27%
2			
3			
4	MEDIUM	27%	11%
5			
6			
7	LOW	52%	3%
8			
9			
10			
11			
12			
13			
14			
15			

From our comparison to other organisations RBV policies were expected to be classified, on average, as detailed below. For the large proportion of the organisations the expected distribution as driven by the guidance provided by the DWP.

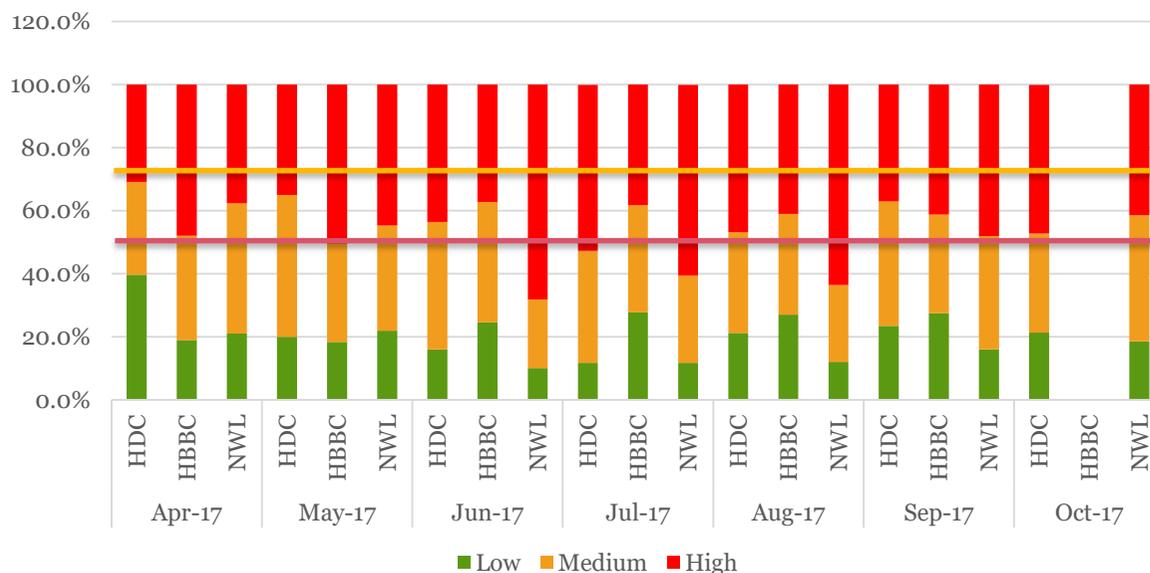
Risk level	Average	DWP guidance	LRBP expected
Low	54%	55%	52%
Medium	26%	25%	27%
High	21%	20%	21%

Risk Based Verification

Analysis

From our review of the April 2017 to October 2017 data:

Risk Distribution Analysis - per month



This demonstrates that the actual distribution of cases between April 2017 and October 2017 is significantly different to the expected risk model. On average, the distribution is fairly consistent across the three authorities, with North West Leicestershire having slightly more low risk cases.

Identifying actual performance and make up of RBV cases within other organisations is quite difficult but where information was available we have identified that compared to other organisations operating RBV the Council has a higher proportion of high risk rated cases. The comparator group is from across the country with a wide range of demographics and population make up. We would encourage the Partnership to meet with other authorities and assess their risk profile.

Risk Based Verification

Analysis

	HDC	HBBC	NWL	Average of other organisations
Low	22%	24%	16%	55%
Medium	36%	33%	32%	23%
High	42%	43%	52%	22%

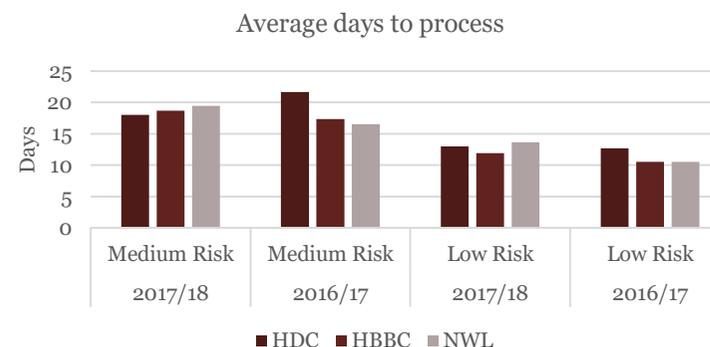
Although the distribution is different to expectation it should be emphasised that the previous method of assessing all cases without applying a risk score would have been aligned to a 'medium' risk score. As a result, any cases which are classified as 'low' risk demonstrates an efficiency saving in reviewing evidence. The additional effort required to process the 'high' risk claims focuses efforts on the claims which are considered to be the area of highest risk to ensure the accuracy of these claims before any payment is made.

Whilst this information is provided to the authority it does not feature as a key reporting area. Since the authorities do not have any influence over the risk score this is considered to be appropriate. The main mechanism for monitoring performance within the Partnership is around processing times. The most recent information shows the following average processing time for new claims (days):

	Sep-17	Oct-17	Nov-17	Dec-17
HBBC	18.4	15.48	16.41	11.2
HDC	15.5	17.94	15.58	15.93
NWL	15.88	17.31	14.12	19.75

There is limited correlation between processing times and the risk score distribution. For HDC despite the fact that the proportion of high risk cases dropped the processing time still increased.

	HDC		HBBC		NWL	
	Sep-17	Oct-17	Sep-17	Oct-17	Sep-17	Oct-17
High	24%	21%	28%	16%	16%	19%
Medium	40%	31%	31%	36%	36%	40%
Low	37%	47%	41%	48%	48%	41%
Processing time	15.5	17.9	18.4	15.5	15.9	17.3



Risk Based Verification

Analysis

The higher risk cases take a longer time to process owing to the additional evidence required. However, by investing the time upfront the authority is saving time and resources later as more effort is undertaken to ensure that claims are accurate and reduce the likelihood of fraud or overpayment upon initial establishment of the claim. There is no direct correlation between fraud and RBV but the figures are masked by the increase in fraud referrals arising from RTI so it is not possible to identify a link between RBV and a reduction in fraud cases.

RBV is applied to all claims. Staff do have the ability to override the risk score and increase if they are concerned it is inaccurate. This is only undertaken after discussions with the senior benefits officers in the team. Such action would be recorded and justified within the claim notes. It is not possible to quantify how many cases this applies to but it would be verified as part of the subsidy audits and internal quality checks which take place within the team. Claims cannot have their risk score reduced.

It is pleasing to see that management provide the Partnership with a regular update summarising the average risk distribution and information around processing times. This enables members to take assurance regarding the implementation of RBV and support its continuing implementation.

Action plan

The Revenues and Benefits Partnership should look to implement:

- no formal review of the RBV policy has occurred since it was introduced and we would encourage management to formally undertake this review to confirm that the policy remains relevant; and
- Discuss with Xantura the variances between the average risk profile to understand why the Leicestershire district appears to have a significantly higher proportion of high and medium risk rated cases.



**Appendix A: Basis of our
classifications**

**Appendix B: Terms of
reference**

**Appendix C: Limitations
and responsibilities**

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **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

A finding that could have a:

- **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

A finding that could have a:

- **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.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **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

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

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

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Option A	Points
	Low risk	6 points or less
	Medium risk	7 – 15 points
	High risk	16 – 39 points
	Critical risk	40 points and over

Appendix B: Terms of reference



Background and audit objectives



This review is being undertaken as part of the 2017/2018 internal audit plan approved by the Audit Committee.

Background and audit objectives

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 is being undertaken to provide assurance to the Partnership around the proper application of controls in relation to the Council Tax and NNDR processes. There have been limited changes in the overall control environment and officers have not identified any specific areas of concern or heightened risk therefore this review will focus on the key controls to ensure they continue to operate as designed.

Since all authorities within the Partnership are subject to intensive subsidy audits by their external auditors covering key controls each year the Housing Benefits element of this review is focused more towards the application of the Risk Based Verification (RBV) policy. RBV is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. The approach allows for a more intense verification activity to be focused on claims more prone to fraud and error. The Management Board and Partnership Joint Committee approved its RBV policy and started to apply RBV from October 2016 using risk scoring software developed by Xantura and Capita.

The Partnership has been advised to review the risk scoring algorithm after a full year of implementation and this review will be the first of a series of work focused on assessing the current level of performance compared against the original proposed business case. Where there are variances from expectation we will investigate the causes of this and provide links to other developments in the Partnership such as the level of overpayment, fraud cases and universal credit introduction.

Audit scope and approach (1 of 2)



Scope

We will review the design and operating effectiveness of key controls in place relating to the auditable unit during the period April 2017 to the date of audit testing.

The sub-processes, risks and related control objectives included in this review are:

Sub-process	Risks	Objectives
Valuation	<ul style="list-style-type: none"> The Authority is not collecting Council Tax for all relevant properties 	<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"> The financial records do not reconcile to the underlying systems and cash collected 	<ul style="list-style-type: none"> Reconciliations between the Academy system and the general ledger are performed and reviewed Reconciliations between Academy and the cash collected are performed and reviewed
Discounts and exemptions	<ul style="list-style-type: none"> Discounts are awarded that are not warranted or appropriate 	<ul style="list-style-type: none"> Discounts and exemptions are applied to accounts on an accurate and timely basis and are reviewed regularly
Risk based verification	<ul style="list-style-type: none"> The Authority fails to realise the benefits projected through risk based verification 	<ul style="list-style-type: none"> Actual performance of the Risk Based Verification policy is in line with initial business case. Where there are variances these are monitored and understood by the Authority

Audit scope and approach (2 of 2)



Limitations of scope

The scope of our work will be limited to those areas outlined above. Our review will be performed in the context of the information provided to us.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the relevant Revenues and Benefits processes through discussions with key personnel, review of systems documentation and walkthrough tests, where appropriate;
- Identify the key risks within the Revenues and Benefits processes;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

Where the process and controls are consistent across all three Local Authorities of the Partnership these will be considered in totality and testing performed on this basis. Individual testing of each Local Authority will only take place where the controls and processes differ.

Internal audit team and key contacts



Internal audit team

Name	Title	Contact details
Richard Bacon	Head of Internal Audit	richard.f.bacon@pwc.com
Jodie Stead	Internal Audit Manager	jodie.a.stead@pwc.com
Mark Vu	Internal Audit team member	bach.h.vu@pwc.com

Key contacts – Hinckley & Bosworth Borough Council

Name	Title
Ashley Wilson	Section 151 Officer
Sally O'Hanlon	Head of Leicestershire Revenues & Benefits Partnership

Timetable and information request



Timetable

Fieldwork start	4 December 2017
Fieldwork completed	8 December 2017
Closing meeting to discuss findings	21 December 2017
Draft report to client	22 December 2017
Response from client	12 January 2018
Final report to client	19 January 2018

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Please note that if Hinckley and Bosworth Borough Council requests the audit timing to be changed at short notice and the audit staff cannot be deployed to other client work, Hinckley and Bosworth Borough Council may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.

Information request

- Original business case and projected usage for Risk Based Verification
- Latest reports showing actual usage of Risk Based Verification
- Listing of all discounts applied
- Access to Valuation Office Directions
- Access to reconciliations

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor’s work

We have undertaken this review 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 changes; 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 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.

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with Hinckley and Bosworth Borough Council in our agreement dated 10 May 2016. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit 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.

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