



**Internal Audit Report**  
**Welfare Reform – Universal Credits**  
**Issued: November 2016**  
**Final**

<b>Level of Assurance</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
---------------------------	--

<b>Table of Contents</b>	
Page 1	Executive Summary
Page 5	Audit Issues and Management Action Plan
Page 9	Definitions of Ratings and Distribution List (Appendix 1)
Page 11	Terms of Reference (Appendix 2)

## Executive Summary

### 1.0 Introduction

The Welfare Reform Act 2012 introduced a new welfare benefit called Universal Credit. Universal Credit is administered by the Department for Work and Pensions (DWP) and is paid as a single monthly amount to support people on low income or who are unemployed. It replaces six current means tested benefits: Income-based Jobseeker's Allowance; Income-related Employment and Support Allowance, Income Support, Housing Benefit, Working Tax Credit and Child Tax Credit. The scheme was introduced to encourage people to prepare for work, increase their earnings and take responsibility for more elements of their household expenditure. The complexity of the project has delayed the full Universal Credit service. It was originally scheduled to be fully implemented by 2014 but the timescales for completion have changed a number of times.

Universal Credit was introduced in Midlothian (for newly unemployed single claimants) in April 2015. The total number of people on Universal Credit (as at 1 August 2016) was circa 500 and out of these 98 were Council tenants. The Council receives email notification from the DWP when a tenant makes a claim for Universal Credit which has a housing cost element. Revenues Service within Midlothian Council administers Discretionary Housing Payments (DHP) and Council Tax Reduction (CTR) which are applied for separately from Universal Credit. Total DHP made to Universal Credit claimants for housing costs in 2015/16 was £19K and 100 Universal Credit claimants (including both private and Council tenants) were claiming CTR (as at 17 August 2016).

'Alternative Payment Arrangements' are available for claimants who require budgeting support. An 'Alternative Payment Arrangement' can be requested and direct payment of the housing cost element to landlords can be made if the claimant has applied for the housing cost element and is 8 weeks or more in arrears with their rent payments. Landlords can also request for third party deductions from a claimant's Universal Credit to repay existing rent or water direct arrears and third party deductions will be made from the claimant's Universal Credit personal standard allowance. The amount deducted will be assessed by the DWP who will check if the claimant has any other deductions from their Universal Credit. Deductions from the personal standard allowance can vary between 10% (minimum) and 20% (maximum). 'Alternative Payment Arrangements' and third party deductions may not be approved by the DWP if the customer already has a number of existing deductions.

The Convention of Scottish Local Authorities (COSLA) regularly advises local authorities of any updates relating to Universal Credit and representatives from the Council attend forums and conferences where knowledge and best practice guidance is shared. Midlothian Council employees have also met with East Lothian Council who implemented the Full (digital) Universal Credit Service in April 2016.

The Council's Arrears section monitors Council tenants claiming Universal Credit. Between April 2015 and April 2016, rent arrears decreased from 8.68% to 8.53% and therefore Universal Credit has not had a big impact on arrears levels but may have a bigger impact when the number of claimants increases. Total rent arrears for tenants on Universal Credit were £85,266 as at 1 August 2016 which represents an average arrears level of £870 per claimant.

The Full (digital) Universal Credit Service is being rolled out nationally for all types of Universal Credit claimants and it is planned to be implemented in Midlothian from March 2017. Once this service has been completed across the UK (planned completion September 2018), the DWP will begin to migrate all remaining existing benefit claimants to the full Universal Credit service which is now due to take place between July 2019 and March 2022.

While the need for local authorities to administer Housing Benefit will gradually reduce, the DWP will only manage Housing Benefit for working age people and local authorities will still have to process benefits for pensioners and temporary accommodation claimants. Management have indicated that the number of people on Universal Credit with a housing cost element will increase substantially after the Full (digital) Service is implemented and they are liaising with the DWP regarding this. Additional resource may be required to manage the anticipated increase in Universal Credit claimants.

### **2.0 Objectives of the Audit**

The objective of the audit was to review the adequacy of the controls in place over the implementation of Universal Credits.

A copy of the terms of reference for the review is attached at Appendix 2.

### **3.0 Conclusion**

During the audit we focused on how the Council is currently managing the small number of claimants and how Universal Credit processing was implemented.

A number of key controls were seen to be operating and these include:

- a Delivery Partnership Agreement was agreed with the DWP. Funding arrangements and a data share agreement was included within the Agreement;

- a third party provider (Places for People) has been contracted to provide the personal budgeting support to Midlothian residents who are facing financial hardship;
- the Arrears section closely monitors Council tenants claiming Universal Credit and maintain a Universal Credit Claimant spreadsheet for this. They have a Universal Credit champion who focuses on Universal Credit tenants with arrears and an additional Universal Credit champion has also recently been appointed;
- a monthly Universal Credit management report detailing the number of Universal Credit claimants by arrears balance, the total number claiming Universal Credit and the number of claimants on 'Alternative Payment Arrangements' is submitted to the Revenue Services Manager;
- training was provided to staff before Universal Credit was implemented and guidance is available to staff on how to process Council Tax Reductions for Universal Credit claimants. Assistance and training was also provided by the DWP before Universal Credit was implemented;
- adequate procedures are in place to ensure that income collected from the DWP is processed through the cash receipting system (ICON) and posted to the House Rents system (CAPITA). The House Rents system is then reconciled and posted to the General Ledger;
- regular meetings are held between Midlothian Council and the DWP; and an electronic mailbox has been set up to receive Universal Credit notifications and information from the DWP; and
- adequate procedures are in place to ensure that the allowances and elements from the Universal Credit award notification received from the DWP are accurately updated on the Council Tax system.

The Revenues section has managed a number of national issues in relation to Universal Credit and the processes implemented by the DWP. Difficulties have included:

- the risks associated with 'Alternative Payment Arrangements'. Full housing cost payments are only received for those who were claiming a passported benefit (out-of-work means tested benefits or tax credits) meaning that if a claimant's monthly earnings fluctuate (due to being in and out of work) then the housing cost element of the 'Alternative Payment Arrangement' may only cover part of the house rent payment. Therefore, 'Alternative Payment Arrangements' have to be closely monitored to ensure that the claimant makes arrangements to pay the full amount of rent due;
- third party deductions can be claimed for Universal Credit Claimant's who have rent or water direct arrears but this cannot be claimed for electronically and decision letters from the DWP have to be posted resulting in delays. Third party deductions can also be unpredictable depending on the claimant's circumstances;
- a payment file from the DWP is received on a 4 weekly basis but the file cannot be automatically imported into the cash receipting system as the reference number used by the DWP varies from that used by the Council;

- housing benefit overpayments are currently not being recovered by the DWP from Universal Credit claimants however, a project is underway and new software is due to be implemented by the DWP to rectify this issue;
- Universal Credit claimants are required to submit details of their housing costs directly to the DWP. Due to the low number of Universal Credit cases, the Council is currently sending house rent increase letters directly to the DWP (freepost address). Management have advised that this may not be feasible when the number of claimants increase and an up-rating solution that does not involve manual intervention will need to be agreed with the DWP; and
- the DWP has no obligation to advise the Council who is claiming Universal Credit so there can be a lack of information on Council tenants on Universal Credit particularly those tenants that have not applied for the housing cost element. The Council has to make best use of the information available and normally receive an early indication that the tenant may be applying for Universal Credit when they request a rent verification statement.

Some areas where improvements could be made have been identified which include:

- the need to improve the information and processes that are used to produce management information relating to Universal Credit;
- interface system issues with the new DHP system module needs to be rectified and implemented on the Open Revenues benefit system; and
- the need to ensure that leavers are removed promptly from Council systems.

These issues are detailed more fully in the Audit issues and Management Action plan in section 4 of the report.

Given that the control framework is of a good standard with only minor elements of risks identified we have rated the strength of the internal controls over Universal Credit as **Good**. We have raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

## 4.0 Audit Issues and Management Action Plan

### 4.1 Management Information

Various management information is produced to monitor the impact of welfare reform which includes the implementation of Universal Credits. Regular reports are sent to Council committees, a Corporate and Service risk register have been created and a 'Universal Credit Claimant monitoring' spreadsheet (detailing the number of Council tenants claiming Universal Credit and the current arrears position) is maintained and monitored by the Arrears section. A monthly monitoring report is also generated by the Arrears section and provided to the Revenue Services Manager.

#### 4.1.1 Universal Credit Claimant Monitoring Spreadsheet

The 'Universal Credit Claimant Monitoring' spreadsheet is mainly used to monitor Council tenants' rent payments who are claiming Universal Credit. If a claimant fails to pay their rent, an arrears officer will contact the tenant and may set up an 'Alternative Payment Arrangements' (if legitimate) or apply the standard arrears recovery process.

Internal Audit testing found that the 'Universal Credit Claimant Monitoring' spreadsheet did not contain all tenants that were claiming Universal Credit and had applied for a housing cost element. Testing identified 3 Universal Credit claimants that were missing from the spreadsheet. Further testing on these 3 accounts found that 1 of the claimants went back into employment after claiming Universal Credit for 8 months and 2 of the accounts were not identified as a tenant with housing costs as the Claimant only applied for Council Tax Reduction and did not have a high rent arrears balance.

The total arrears balance for the 3 claimants amounted to approximately £900 and therefore a minor arrears balance was omitted from the monthly monitoring report figures.

#### 4.1.2 Monthly Monitoring reports

Monthly monitoring reports are generated by the Arrears section which details the number of tenants claiming Universal Credit and their rent arrears position. The monthly monitoring reports are prepared manually at the end of each month which involves an arrears officer collating information from the Capita housing system on each individual claimant. This process is not considered sufficiently robust as it is time consuming to produce and it will not be a feasible process when the number of Universal Credit claimants increase.

## 4.1.3 Risk Registers

The Revenues risk register does not detail the controls that are currently undertaken in the Arrears section and it does not acknowledge all the current risks that management are aware of such as:

- the impact of the Full (digital) Universal Credit service due to be implemented in March 2017 and the risks associated with the number of claimants increasing. There is a risk that there may not be adequate resource to continue with the current practice of closely monitoring Universal Credit claimants. Management reported that extra resource has been allocated to the Arrears section to assist the service with the anticipated increase of Universal Credit claims;
- the risk of setting 'Alternative Payment Arrangements'. Management have indicated that there is no guarantee of payments if the claimant's monthly earnings fluctuates which means the housing cost element may only cover part of the claimant's house rent payment. Therefore, the Arrears section need to monitor accounts and when necessary advise the claimant to pay the full amount of rent due before they spend their Universal Credit payment. There is a high risk of arrears increasing if accounts are not monitored. Management reported that they need to make best use of the information that is available within the Council and may need to communicate with claimants more frequently;
- other issues that are affecting Universal Credit claimants or processes eg. system issues with processing benefits such as DHP and recovering outstanding overpayments from claimants (these issues are reported more fully in sections 4.2.1 and 4.3 of the report); and
- the full Universal Credit service has been further delayed by the Government and will not be fully operational until March 2022. There is no information on whether this has any impact on the Council.

No	Recommendation	Priority	Manager	Target Date
1	<p>An automated process for monitoring Council tenants claiming Universal Credit should be introduced.</p> <p><u>Management Comment:</u> Monitoring claimants from a spreadsheet is not deemed to be feasible in the long term. Therefore, we are liaising with the Business Services team to create a marker on the housing system highlighting claimants on Universal Credit and enable automated management reports to be generated.</p> <p>The Universal Credit champion officer has been given access to the Universal Credit mailbox</p>	High	Revenues Services Manager	31/03/17

No	Recommendation	Priority	Manager	Target Date
	so that all Council tenants claiming Universal Credit can be flagged on the Council's housing system.			
2	The Revenues service risk register should be updated to include more comprehensive information on the risks associated with Universal Credit and the controls embedded in the service.	Medium	Head of Customer and Housing Services	31/12/16

## 4.2 System issues

### 4.2.1 Discretionary Housing Payments (DHP)

Historically, DHP were paid in blocks of 13 weeks payments but in the current financial year, a new system module was implemented which enables DHP payments to be paid on a weekly basis and allows information to be produced on a real time basis. However, it was reported that due to interfacing system issues between the housing (Capita) and benefit (Open Revenues) systems, DHP cannot be processed and therefore the housing system is not showing an accurate rent balance for those eligible for this benefit. Management reported that once the issue is rectified, they will back-date all DHP payments from the start of the current financial year.

### 4.2.2 Leaver access

A copy of the leavers' report is regularly sent to the System Administrator (who controls access to the Revenues systems) by Human Resources and this is used to identify employees with access to the council tax, housing and scanning systems and their system access is subsequently removed. Internal Audit testing identified one leaver with access to the scanning system who left the Council in January 2016 but the account was not deactivated until July 2016.

No	Recommendation	Priority	Manager	Target Date
3	Interfacing issues between the Capita and Open Revenues systems in respect of the new DHP system module should be rectified and implemented.	High	Revenues Services Manager	Complete
4	Leavers' access rights to systems should be removed promptly.	Medium	Business	Complete



No	Recommendation	Priority	Manager	Target Date
	<u>Management Comment:</u> The monthly leavers' report from Human Resources is now checked against the live users on each system.		Applications Manager	

### 4.3. Housing Benefit Overpayments

Housing Benefit overpayments are currently not being recovered by the DWP from Universal Credit claimants however, a project is underway and new software is due to be implemented by the DWP to rectify this issue.

No	Recommendation	Priority	Manager	Target Date
5	An action has been raised to enable us to track that the system for recovery of housing benefit overpayments is implemented effectively.	Medium	Revenues Services Manager	31/03/2017

**Definitions of Ratings**

**Audit Opinion**

<b>Level of Control</b>	<b>Reason for the level of Assurance given</b>
<b>Excellent</b>	The control framework is of a high standard with no unacceptable risks identified.
<b>Good</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
<b>Average</b>	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
<b>Weak</b>	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in financial loss or reputational damage to the Council.
<b>Poor</b>	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent financial loss or reputational damage to the Council.

**Recommendation Rating**

<b>Priority</b>	<b>Risk Definition</b>
<b>High</b>	Legal / regulatory issues would normally be regarded as high risks.  Strategic risks would normally be regarded as high risks.  Financial impact - £50K plus and / or national press interest
<b>Medium</b>	£5K - £49K and / or local press interest
<b>Low</b>	Under £5K and / or no press interest.

## **Distribution**

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Director, Health and Social Care
- Kevin Anderson, Head of Customer and Housing Services
- Gary Fairley, Head of Finance and Integrated Service Support
- Ken Pike, Revenues Services Manager
- Jackie Dougall, Business Services Manager
- Mike O'Rourke, Business Applications Manager
- Ernst and Young, External Auditors

## **Audit Team**

Author: Amber Ahmed, Auditor

Reviewer: Elaine Greaves, Internal Audit Manager

**TERMS OF REFERENCE:**

Audit Objective

The objective of the audit is to review the adequacy of the controls in place over the implementation of Universal Credits.

Scope of Audit

The review will focus on the following areas:

1. plans exist with regards to the implementation of Universal Credit and the future impact on the Council is regularly monitored (eg rent arrears);
2. council tax reductions are accurately updated on the system;
3. interfaces between the DWP and the Council are working effectively. This includes receiving information in a timely manner to ensure housing benefits are cancelled and the process of setting up and monitoring Alternative Payment Arrangements ;
4. ensuring rent payments received via DWP are correctly allocated to House rent accounts;
5. management and financial information, including the risk register, is relevant, accurate and timely; and
6. access to systems is controlled effectively.

Excluded from the Scope of the Audit

The following areas will not be included within the Audit:

- calculation and the award of housing benefits;
- calculation and claimant's entitlement to Discretionary housing payments; and
- all other aspects of the Welfare Reform that have not been specifically stated within the scope.

<b>Potential Risks</b>
<p>The main risks associated with Universal Credit are:</p> <ul style="list-style-type: none"><li>• increased demand or costs for Council services if the number of Universal Credits claimants significantly increase;</li><li>• notifications from DWP not received timeously resulting in housing benefit overpayments or delays in processing Council tax reductions;</li><li>• Council tax reductions are inaccurately calculated or are incorrectly raised, cancelled or applied late resulting in reputational damage or financial loss to the Council;</li><li>• inadequate or inaccurate records, audit trails and reporting leading to the potential for financial loss and reputational damage;</li><li>• unauthorised access, amendments to or loss of data due to ineffective controls within the system resulting in financial loss or reputational damage;</li><li>• customers facing financial hardship which results in increased rent arrears; and</li><li>• levels of homelessness and arrears increasing due to non payment of rent.</li></ul>
<b>Audit Approach</b>
<p>The audit approach consists of:</p> <ul style="list-style-type: none"><li>• fact finding interviews with relevant employees;</li><li>• review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;</li><li>• interrogation of any relevant systems and sample testing as required;</li><li>• closure meeting with local management to discuss the findings and any recommendations from the review;</li><li>• draft and final reporting; and</li><li>• presentation of the final report to the Audit Committee.</li></ul>
<b>Timescales &amp; Reporting</b>
<p>The audit will commence in mid May 2016 and is expected to be completed by June 2016 and be reported to the Audit Committee in September 2016.</p> <p>Any issues arising will be communicated directly to local management as they are identified during the course of the audit. A formal audit report</p>

will be produced summarising the findings and recommendations of the review and will be presented to the Audit Committee.

**Information Requirements**

Access to all relevant systems, documentation and employees.

**Audit Staff**

Amber Ahmed, Internal Auditor  
Elaine Greaves, Internal Audit Manager