

**MIDLOTHIAN AUDIT SERVICES  
INTERNAL AUDIT REPORT**



**Subject:** Welfare Reform – Scottish Welfare Fund

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## EXECUTIVE SUMMARY

### 1 Objective of the Audit

The objective of the audit was to review the adequacy of the controls in place over the Scottish Welfare Fund (SWF) Community Care Grants and Crisis Grants.

### 2 Remit and Scope

The audit focussed on the internal controls related to the following objectives:

- that staff have received appropriate and adequate training to carry out the function;
- written policies and procedures relating to the SWF exist and are being adhered to by staff;
- a clear method exists for assessing applications and approving or rejecting grant claims;
- an efficient monitoring system is in place to ensure grant funding is awarded in accordance with procedures and recorded accurately in the financial ledger;
- that expenditure is monitored and that there is effective budgetary management of the fund throughout the year to ensure high priority claims can be met;
- that payments are recorded accurately in the financial ledger and reconciled to the grant system;
- there is segregation of duties between approving grant awards and processing grant payments;
- that awards are processed only on receipt of a properly completed claim form and supported by checks on the DWP system; and
- that personal and sensitive information held by the Council for the purpose of the Scottish Welfare Fund is kept confidential and access to personal records on the system is restricted to authorised personnel.

#### Excluded from Scope:

- other crisis grants awarded by the Council including s12, s22 and s27 grants; and
- all other aspects of the welfare reform that have not been specifically stated within the scope.

### 3. Background

From 1 April 2013, the SWF replaced parts of the Discretionary Social Fund previously administered by the Department of Work and Pensions (DWP). The SWF is a national policy and fund, which provides a safety net for some of Scotland's most vulnerable people. It is locally delivered in partnership with the Scottish Government and intended to offer grants or 'in kind' support for two purposes:

- to provide a safety net in an emergency when there is an immediate threat to health or safety (Crisis Grants); and
- to enable independent living or continued independent living, preventing the need for institutional care (Community Care Grants).

Crisis grants are normally awarded as a last resort to cover living expenses in response to an emergency or disaster. COSLA has reported that the average Crisis Grant award is £56.

Community Care Grants are normally larger and include more proactive forms of assistance such as: furniture, household equipment, travel costs, removal expenses, storage charges, connection charges for gas and electricity etc. COSLA has reported that the average Community Care Grant is £520.

The SWF is a discretionary budget-limited scheme that prioritises applications according to need. Unlike the Discretionary Social Fund which provided Crisis Loans, the SWF only provides grants that do not need to be repaid.

The total budget made available for the SWF in Scotland for 2013/14 was £32.995m. Midlothian Council's share of this was £385,338 made up of £253,461 and £131,877 for Community Care Grants and Crisis Grants respectively.

The national guidance sets out a model for assessing the priority of applications as high, medium or low. The budget holder must then assess the demand pattern of actual activity against the budget profile on a month to month basis to determine whether it is possible to make awards for high priority applications only; high and medium; or high, medium and low.

In common with other local authorities and on advice from the DWP, Midlothian set the priority of applications to be accepted as 'high' when the fund was launched. Similar to other Scottish Councils, the demand for the SWF has not been as great as the DWP forecasts. Therefore, the priority rating of applications accepted from October 2013 onwards was adjusted to 'medium' for Community Care Grants.

Midlothian selected to use the Open Revenues system provided by Civica to record and manage the Scottish Welfare Funds processes. Open Revenues is used already to manage all aspects of council tax, housing and council tax reduction.

Reports extracted from Open Revenues in respect of awards for 2013/14 show the following expenditure:

	<b>Actual Spend 2013/14 (£)</b>	<b>Profiled spend 2013/14 (£)</b>	<b>% of profiled spend</b>	<b>No. of applications made</b>	<b>No of Awards</b>	<b>Average Award Size (£)</b>
<b>Community Care Grants</b>	202,701	253,461	79.97%	812	511	397
<b>Crisis Grants</b>	103,293	131,877	78.33%	2,624	1,690	61
<b>Total</b>	305,994	385,338	79.41%	3,436	2,201	

Appendix 1 details the monthly and cumulative awards from the system compared with the budget. In line with the change in priority of application (ie to include high and medium) the monthly spend from October 2013 onwards has increased.

In 2013/14, the Council received administration funding from the Scottish Government of £63,000 supplemented by Midlothian Council funding of £43,580 to assist with the management of the SWF. Over the course of the financial year, 4.5 FTE employees were appointed at different times costing £77,623 to administer the fund. This is made up of 2 FTE Revenues Officers and 2.5 FTE contact centre staff. Additionally, officer time was needed in implementing the systems to manage the SWF fund, train staff, supplier arrangements, monthly and quarterly reporting requirements, practitioner meetings, reviews and payment of awards and subsequent reconciliations by Collection and Enquiry Officers.

#### **4 Audit Conclusion**

Timescales were very short for the implementation of the SWF. Therefore, Internal Audit recognises that it is a significant achievement that a workable system was implemented in time for the live date of the SWF: 2 April 2013. Our audit identified that management have established a number of internal controls to deliver the Scottish Welfare Fund effectively.

These included:

- providing staff with adequate training on the SWF;
- adequately assessing claims in line with the SWF guidance. For the sample of 30 applications reviewed the claims were calculated correctly and had adequate evidence of how the decision was reached and the calculation used for awarding the grant;
- there was a process in place for the Team Leader to monitor SWF applications on a sample basis;
- processing applications for Crisis Grants and Community Care Grants within the target time in almost all instances;
- adopting the principles of segregation of duties over the management of the SWF, with different staff responsible for receiving applications, assessing applications, and paying the grant to the applicant; and
- following the SWF guidance for the appeals process and ensuring the independence of first and second tier reviews.

However, the following issues were identified during the review:

- the Open Revenues Discretionary Awards Module has not been reconciled to the Cost Centre for 2013/14 (the first year of operation). As a result of this, discrepancies between the Cost Centre and the system have not been corrected. A reconciliation acts as a final check to ensure that the individual has been granted the correct award and helps ensure that the information reported to the Scottish Government is correct. A process needs to be developed so this is carried out periodically going forward;
- an expiry date should be added to awards so there is clarity on when these should be removed from the system. The process for removing uncollected awards from the system needs to be formalised;
- Open Revenues reporting functionality for the Discretionary Awards Module needs to be reviewed to ensure that the correct data is reported from the

system and allow the Revenues Operations manager to adequately monitor grant spend. A system report was identified during the audit that was producing incorrect data in one of the fields;

- invoices should include a description of the goods to allow the Council to confirm that the price paid for goods is reasonable and to allow the Council to identify the asset, if required;
- local procedures (ie in terms of workflow and local processes) should be created for Revenues Officers managing the SWF so there is clarity on the responsibilities and processes involved. Additionally, written procedures would help in training new employees and existing employees could refer to these when needed;
- some improvements in relation to reconciliations should be made to the petty cash controls at Buccleuch House; and
- a minor issue was identified in relation to the authorised signatories system. The authorised signatory database needs to be updated to include authorisation limits for the authorisation of invoices for Team Leaders and authorisation of Crisis Grants and Community Care Grants by Team Leaders and actual authorisation powers.

As noted above, there are some issues above the acceptable level of residual risk that should be addressed within a reasonable timescale. These are detailed in the Management Action Plan along with recommendations to reduce risk further. Therefore, on this occasion, we have rated the strength of internal control as **yellow** (in accordance with the grid below).

Colour	Level of Assurance	Reason for the level of Assurance given
Blue	Very High	Internal Control, Governance and the Management of Risk are at a very high standard with no unacceptable residual risk existing.
Green	High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Yellow	Moderate	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Amber	Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Red	Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

## MANAGEMENT ACTION PLAN

### **Reconciliation:**

A reconciliation between the Open Revenues Discretionary Awards Module and the Cost Centre (financial ledger) has not been completed for 2013/14 (which is the first year of SWF).

A reconciliation helps ensure that:

- the applicant has received the correct reward as agreed to the grant system;
- the information has been recorded correctly in the financial ledger;
- potential fraud or error is identified with respect to cash awards; and
- uncollected awards can be identified, reviewed, and if appropriate removed from the Open Revenues system.

Although it is the Revenues Manager Operations' responsibility to ensure that a reconciliation is adequately completed, the reports and data analysis required to enable officers to carry out this work need to be prepared by the Revenues Control team.

No	Recommendation	Priority	Manager	Target Date
1	A reconciliation should be completed between the Cost Centre and the Open Revenues Discretionary Awards Module. Differences should be identified and corrections made to the Open Revenues system as appropriate. The reconciliation should be completed monthly going forward. Copies of the year end reconciliation should be submitted to finance to support the figures in the accounts (eg for details of any necessary accruals).	High	Revenues Manager Operations / Revenues Manager Security and Systems	31/08/14

### **Review of Budget Difference:**

The cost centre has recorded the total SWF budget spent in 2013/14 on awards as £269,329. The 'grant items report' extracted by Internal Audit through the Open Revenues System for the financial year 2013/14 identified that the total financial amount awarded was £305,994. This is a difference of £36,665.

It was identified during the audit that Community Care Grants have been input into Open Revenues gross of Value Added Tax (VAT) rather than net, so the VAT incurred on Community Care Grant invoices of £23,987 for the year will make up the majority of this difference.

The remaining differences are mostly made up of Community Care Grants that: have been awarded but have subsequently not been collected by the applicant; occasions where the invoice value is higher than the grant system (eg in cases where a two Community Care Grants applications have been processed for the same individual and these have been invoiced together); and occasions where the invoice value is lower than the original award (eg if the applicant has elected to take second hand goods or has decided not to take every item they were eligible for).

Revenues Control Team provide monthly and quarterly reports to the Scottish Government and they do this by extracting the information directly from the Open Revenues system. The above differences mean that the monthly and quarterly reporting to the Scottish Government has been overstated for 2013/14.

No	Recommendation	Priority	Manager	Target Date
2	<p>Community Care Grant awards should be input into Open Revenues net of VAT as the VAT element is reclaimed by the Council and is not an expense of the SWF.</p> <p>Revenues Management have reported that due to system limitations it would be difficult to correct previously awarded grants to the net amount. However, going forward, the net amount will be input into the Open Revenues system instead of the gross amount.</p> <p>The letter to the applicant should indicate they have received an award equal to the amount net of VAT.</p>	High	Revenues Manager Operations	31/08/14
3	An expiry date of six weeks should be applied to all grant awards. Details of this procedure should be added to the award letter issued to successful applicants so they are aware of this. Likewise, the supplier should be notified of this procedure and advised to apply it.	Medium	Revenues Manager Operations	31/08/14
4	As part of the reconciliation process (recommendation 1), awards that are uncollected after a period of six weeks should be adjusted from 'awarded' to 'declined' within Open Revenues.	Medium	Revenues Manager Operations	31/08/14

### **Open Revenues System Reports:**

Open Revenues allows various reports to be extracted from the system to allow the budget to be monitored. As the remaining budget is the basis for the priority level of grants the Council is able to accept, it is important that the Manager is able to review accurate information. However, it was identified during the audit that some of the reports were producing different information for the total grant spend and the reasons for this were not fully understood by the Revenues team. It is important that system reports, such as the 'grant items report', are reviewed for accuracy.

Although a figure of £290,953 (inclusive of VAT) was used as the total award figure for 2013/14 in Open Revenues, a report could not be provided during the Audit that reconciled to this figure.

No	Recommendation	Priority	Manager	Target Date
5	The software supplier, Civica, should be contacted to assist in understanding the discrepancies between the different reports Open Revenues produces and to make the appropriate fixes if required.	High	Revenues Manager Security and Systems	31/08/14

### **Community Care Grant Invoices:**

Testing of Community Care Grant invoices from the supplier showed that the make or model of the item supplied was not always recorded on the invoice.

A description of the goods on the invoice would allow the Council to check that the price awarded for the type of goods received is reasonable. Additionally, it would allow the Council to check that the applicant still has the item awarded if there is suspicion that the applicant has subsequently sold the items.

No	Recommendation	Priority	Manager	Target Date
6	The supplier should be advised that the invoices provided to Midlothian Council must include appropriate information on the type of item provided (ie description and make of item).	Medium	Revenues Manager Operations	31/07/14

### **Local Processes and Procedures:**

During the audit it was noted that training had been provided by the Performance and Development Officer and that all relevant staff had been provided with the training material and slides used. Additionally, all relevant staff had a copy of the Scottish Government's Social Welfare Fund Guidance.

Despite this there were no local procedures to explain, for example: how to use the Discretionary Awards Module; the updates required to Open Revenues for each claim processed; and how work should be recorded and documented.

Revenues employees are required to sign an annual declaration form to acknowledge the sensitivity of the data they have access to and confirm that they will keep all information confidential. The form has not been updated yet to include processing on the SWF.

No	Recommendation	Priority	Manager	Target Date
7	Local procedures explaining the processes involved in using the Discretionary Awards Module, updating the system and recording work should be developed. This should include any additional procedures required for the reconciliation process (recommendation 1).	Medium	Revenues Manager Operations	31/08/14
8	The annual declaration form template should be updated to include details of the SWF.	Low	Revenues Manager Security and Systems	31/07/14

### **Petty Cash Controls:**

Awards can be collected at two office locations: Buccleuch House and Penicuik Town Hall. Petty cash controls for the SWF were reviewed at both locations. For Penicuik Town Hall they were found to be adequate.

For Buccleuch House, it was noted that petty cash reconciliations were not signed by the preparer and that previous petty cash reconciliations were not kept.

To allow segregation of duties, cash office employees do not have access to the discretionary awards module of the Open Revenues system. Nevertheless, it was identified



that the petty cash reconciliation for Buccleuch House was saved in a location in the network drive so that all Revenues employees could access. Revenues officers are thus able to access the petty cash reconciliation and are able to make unauthorised changes.

No	Recommendation	Priority	Manager	Target Date
9	The following is recommended: <ul style="list-style-type: none"> <li>petty cash reconciliations should be signed by the individual that has prepared them;</li> <li>the previous weeks petty cash reconciliations should be filed for future reference; and</li> <li>access to the petty cash reconciliation should be limited to Buccleuch House Collection and Enquiry Officers and Management.</li> </ul>	Medium	Revenues Manager Operations	31/07/14

### **Appeals Evidence:**

For first tier reviews, the internal memo detailing the appeal reviewer's decision was not always available in Comino. For the sample of eight first appeals reviewed, three did not have an Internal Memo for the appeal decision. However, two of these three appeals had adequate information detailing the reviewer's decision within the body of the letter submitted to the applicant.

For the two second tier reviews adequate information was available in Comino.

No	Recommendation	Priority	Manager	Target Date
10	Staff should be advised to always include an internal memo in Comino for all first tier appeals.	Low	Revenues Manager Operations	31/07/14

### **Classification of Grant:**

Contact Centre staff can include a Crisis Grant and Community Care grant on the same application form. This causes administrative problems for reporting on the fund as Crisis Grants and Community Care Grants need to be identified separately. Although there are few instances of this occurring, Contact Centre staff should be advised to process the applications separately.

No	Recommendation	Priority	Manager	Target Date
11	Staff should be reminded to use separate applications for Crisis Grants and Community Care Grants.	Low	Contact Centre Manager	31/07/14

### **Authorised Signatories:**

It was identified during the audit that although the Revenues Team Leaders have the ability to authorise invoices, no limits have been assigned to the level of invoices they can authorise in the authorised signatories database. However, they do not have the responsibility to 'order goods, works and services' so the risk is regarded as low.

Additionally, it was noted that the Revenues Officers and Team Leaders involved in the SWF are essentially authorising the grant payment. However, there is no indication in the authorised signatory database that they have the authority to do this.

No	Recommendation	Priority	Manager	Target Date
12	In the authorised signatory database limits should be assigned to Team Leader's authority for authorising invoices.	Low	Revenues Manager Operations	31/07/14
13	The appropriate officers involved in the SWF should be added to the authorised signatory database and their authority levels specified (up to £1,500).	Low	Revenues Manager Operations	31/07/14

**APPENDIX 1**

**Monthly and Cumulative SWF Spend:**

<b>2013/14 Financial Year</b>	<b>Crisis Grant Spend (£)</b>	<b>Crisis Grant Cumulative Spend (£)</b>	<b>Community Care Grant Spend (£)</b>	<b>Community Care Grant Cumulative Spend (£)</b>	<b>Cumulative SWF Spend (£)</b>
April	4,747	4,747	8,029	8,029	12,776
May	7,206	11,953	4,696	12,725	24,678
June	5,951	17,904	5,180	17,905	35,809
July	6,828	24,732	9,514	27,419	52,151
August	6,752	31,484	10,944	38,363	69,847
September	6,559	38,043	18,041	56,404	94,448
October	12,132	50,175	32,220	88,624	138,800
November	9,781	59,956	28,782	117,406	177,363
December	11,170	71,126	18,614	136,020	207,146
January	12,166	83,292	27,984	164,005	247,296
February	9,952	93,244	20,062	184,067	277,310
March	10,049	103,293	18,635	202,701	305,994