



New HB Audit

A guide for local authorities

Introduction

1. Audit Scotland took over the Benefit Fraud Inspectorate's (BFI) responsibilities for the inspection of housing benefits in Scotland on 1 April 2008. Because Audit Scotland has no inspection function, this new work has been integrated with its current benefits audit.
2. The current benefits audit is carried out by local external auditors and involves mainly the audit of subsidy claims. The annual subsidy work will continue and will inform the new work. For the purpose of this overview we refer to the new work from April 2008 as the new HB Audit.
3. The new HB Audit will consider the extent to which Scottish local authorities are complying with the Local Government in Scotland Act 2003 in achieving continuous improvement in the performance of their benefits service and where risks to continuous improvement are identified, how these risks can best be reduced.
4. In developing this process Audit Scotland has taken into account recommendations from recent reviews on external scrutiny in Scotland. These include:
 - scrutiny and challenge function should be more proportionate
 - increased emphasis on robust self-assessment using outcome based approaches
 - greater focus on experience of user and public.
5. As housing benefits are administered across Great Britain, Audit Scotland is committed to reporting its HB Audit findings in a format that is broadly in line with those of the Audit Commission in England and the Wales Audit Office. This will assist in ensuring that the Department for Work and Pensions (DWP) receives a similar level of assurance from all three organisations.
6. This guide is intended to assist local authorities in preparing for the new HB Audit and sets out what they can expect from the process.

The new HB Audit approach

7. The key features of the new HB Audit approach include:
 - **cyclical risk assessment** – normally, a local authority's benefits service will be subject to an annual risk assessment. This activity will determine the extent to which the benefit service has effectively identified and taken action to address areas of risk
 - **risk based and proportionate focused audit** – will only be carried out where the risk assessment identifies risks to continuous improvement and the local authority's proposals have not delivered, performance improvement within a reasonable timeframe

- **public reporting** – HB Audit reports, produced following a focused audit, are considered by the Accounts Commission and will be published, together with the Commission’s findings, on Audit Scotland’s website
- **no league tables or scores** – Audit Scotland will not use league tables or overall labels, reports will provide an assessment of each local authority’s strengths and weaknesses, focusing on the areas where improvement is most needed
- **providing assurance to Secretary of State for Work and Pensions** – the new HB Audit provides assurance to the DWP about the overall level of risk in housing benefits administration across Scotland.

8. During the new HB Audit, the benefits auditor will consider 4 key issues:

- **aims of the benefits service** – what does the service aim to achieve in terms of:
 - community and user needs
 - national priorities
 - wider corporate ambitions, strategies and priorities for improvement?
- **meeting the needs of the community** - is the service provided effective, does it facilitate fair and equal access for all users and does it fully meet the diverse needs of the community? Are service standards clear and are there appropriate arrangements for consulting, engaging and communicating with users and non-users?
- **delivering promised outcomes** – is the service delivering what it promised to do and how effective is it in delivering local and national objectives? As part of the risk assessment process we will look at Statutory Performance Indicators (SPI), local targets, performance and outcomes across the benefits service as a whole including quality checking, overpayment recovery, counter fraud, interventions, appeals and reconsiderations
- **providing value for money** – how do the service’s costs compare to others allowing for local context, performance and policy choices and how is value for money managed through partnership and procurement? The Accounts Commission requires that local authorities publish the gross administration cost per case figure. The benefits auditor will use this figure to inform their analysis.

9. In considering each of these issues above the benefits auditor will draw conclusions on the local authority’s past track record of, and potential for, achieving continuous improvement.

The new HB Audit process

10. Audit Scotland has decided that the new HB Audit will be carried out by a central specialist team of benefit auditors who will work closely with the local authority's external auditor. The new HB Audit comprises two distinct phases.
11. The first phase is a risk assessment on the benefits service as a whole which will be carried out on a cyclical basis. During this phase the benefits auditor will determine the extent to which the local authority demonstrates its self awareness of the areas that need to improve as well as those where things are going well. The benefits auditor will seek to gain a high level picture across the benefits service regarding what the benefits service aims to achieve, how it aims to do this, service performance and management arrangements.
12. The second phase is a focused audit covering those areas of risk identified during the risk assessment phase. A focused audit will only be carried out after the local authority has been given the opportunity to improve performance but has not managed to do so. The benefits auditors will seek to identify any operational or managerial issues which act as a barrier to continuous improvement and make recommendations for service delivery and performance improvement.

Phase 1 - Risk assessment

13. The main stages of the risk assessment, along with the associated timeline, are illustrated in exhibit 1. They are explained in more detail in the paragraphs that follow.

Exhibit 1: The new HB Audit phase 1 - risk assessment	
	Set up
1 week	Risk assessment stage1 – initial scrutiny
Up to 3 days over 5	Risk assessment stage 2 – on site
1 week +	Risk assessment stage 3 – report findings
2 weeks	Risk assessment stage 4 – decide follow up action

Set up

14. Audit Scotland will decide the risk assessment programme on a quarterly basis. The Chief Executive of each selected local authority will be notified at least 4 weeks before the programme begins and asked to nominate a contact person to facilitate future communications.
15. We will then write to the nominated contact requesting a self-assessment of the benefit service. We will provide a template with associated guidance to assist the local authority presenting this and allow 2 weeks for completion.

Stage 1 – initial scrutiny

16. The benefits auditor will consider current performance and compare it to past performance, other Scottish local authorities' performance and Scottish average performance where this figure is available. Examples of reported performance which will be examined include:
 - DWP right time indicator
 - DWP right benefit indicator
 - average time to process new claims
 - average time to process changes events
 - percentage of new claims decided within 14 days of receiving all information
 - number of claims paid on time
 - overpayment recovery
 - data matching activities and outcomes
 - fraud referrals, investigations and sanctions
 - reconsiderations and appeals.
17. Other sources of information include information gained from external audit's work on:
 - audit of benefit subsidy claim
 - benefits IT systems
 - performance and management information (including Statutory Performance Indicators).
18. Audit Scotland will also take into account the information it has on the:
 - local authority's approach to the National Fraud Initiative and associated results
 - findings from the Best Value Audit, if this has taken place.
19. In addition, the benefits auditor will look at any recent BFI reports and take into account any recent or on-going Performance and Development Team activity and DWP monitoring activity.
20. The benefits auditor will consider the local authority's self-assessment taking into account the supporting evidence, reported performance and other information. From their analysis the benefits auditor will form their initial hypotheses which will determine the focus of the on site visit.

Stage 2 – on site

21. While on site the benefits auditor will have an introductory meeting with key officers to discuss the new HB Audit process and their initial hypotheses. This will be followed by interviews with individual managers to fill in any gaps in information.
22. Before completing this stage the benefits auditor will present and discuss their findings. This will provide an opportunity to clarify any issues.

Stage 3 – report findings

23. Audit Scotland will report the risk assessment findings, highlighting any risks, to the Chief Executive. Where there are no risks to continuous improvement or where the local authority is taking sufficient steps to address the risk, Audit Scotland's engagement with the authority will cease until the next round of risk assessments.
24. Where the risk assessment identifies risks and insufficient steps are being taken to reduce the risk, Audit Scotland will invite the local authority to provide its proposals for reducing the risk. The authority will be given up to 4 weeks to present its proposals.

Stage 4 – decide follow up action

25. Audit Scotland will consider the proposals and make a judgement on the likelihood of them delivering service improvement within an acceptable time frame. Where it is considered that service improvement is probable Audit Scotland will request regular updates on progress.
26. Audit Scotland will only move to the second phase of the HB Audit, where it is considered that the prospect of delivering service improvement is unlikely.
27. Audit Scotland will notify DWP of the outcome of all risk assessments.

Phase 2 – Focused audit

28. The main stages of the focused audit, along with the associated timeline, are illustrated in exhibit 2. They are explained in more detail in the paragraphs that follow.

Exhibit 2: The new HB Audit phase 2 - focused audit	
1 week	Focused audit stage1 – preparation
1 week	Focused audit stage 2 – on site
2 weeks	Focused audit stage 3 – report
4-5 weeks	Report publication

Focused audit stage 1 – preparation

29. Audit Scotland will decide the scope of the audit and decide which areas it should concentrate its focused audit activities on. The benefits auditors will contact the local authority prior to their visit to arrange dates for interviews and workshops.

Focused audit stage 2 – on site

30. Audit Scotland expects to have 2 benefits auditors on site for one week and while there they will gather and analyse information. This will involve interviewing those managers responsible for the areas we are examining and facilitating workshops for operational staff. Other activities may include scrutiny of management information and minutes of management and operational team meetings.

31. Throughout the visit the benefits auditors will keep the local authority updated on their findings and at the end of the visit they will present their findings, based on the analysis to date. The intention is that this dialogue will enable the local authority to clarify any issues raised and provide additional evidence where appropriate.

Stage 3 –report

32. After the on site phase the benefits auditors will complete their analysis and draft the HB Audit report, which will detail the findings, conclusions and recommendations. Before finalising the report, a draft will be sent to the local authority who will be asked to comment on the factual accuracy. Following this the report will be finalised.

Stage 4 - report publication

33. HB Audit reports are statutory reports presented to the Accounts Commission by the Controller of Audit. They are public reports and will be published on Audit Scotland's website. The Accounts Commission will report its findings and is likely to ask the local authority to prepare a detailed improvement plan.
34. A copy of the HB Audit report will be sent to the Secretary of State for Work and Pensions.