

Report of the Comptroller and Auditor General to the Northern Ireland Assembly

Introduction

1. The Northern Ireland Housing Executive (NIHE) is comprised of a Quasi-Public Corporation and a Non Departmental Public Body (NDPB)¹ and is sponsored by the Department for Communities (the Department). NIHE is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 86,000 dwellings.
2. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied for the purposes intended by the Northern Ireland Assembly (the Assembly) and the financial transactions conform to the authorities which govern them.

Explanation for Qualified Audit Opinion

3. This report reviews the results of my 2018-19 audit of NIHE and sets out the reasons why I consider I do not have enough evidence to provide an unqualified regularity audit opinion.
4. NIHE spent £621.1million on housing benefit in 2018-19. The fraud and error within this expenditure has been estimated to be £24.8 million. As these levels are significant I have qualified my audit opinion on regularity. NIHE's accounts have received similar qualified audit opinions in previous years. Further detail is set out in Part 1 of this Report.

¹ From 1 April 2014, following a review by the Office for National Statistics, the accounting classification of the Housing Executive changed. The Housing Executive now comprises two accounting regimes. Landlord Services and functions have been re-classified as a Quasi-Public Corporation (which is similar to the previous designation for the entire organisation) while Regional Services and functions are now categorised as an NDPB. The main impact of the accounting reclassification is that the NDPB will, for accounting purposes, be more closely integrated with the sponsor department and budgetary management arrangements are now aligned to those already in place for the Department.

Other matters (Part 2)

5. In July 2015, I asked the Department to investigate anonymous allegations referred to me by an MLA. The Department's Internal Audit completed an investigation into this matter in August 2016. In my report on NIHE's 2016-17 financial statements I included details of Internal Audit's findings together with issues around NIHE's handling of the report. Following this it was agreed that NIHE Internal Audit would carry out a review of the NIHE Human Resources function in 2017-18. As this was given a limited² opinion NIHE Internal Audit carried out further work in 2018-19. Further details are set out in Part 2 of this Report.

6. In my 2016-17 report I also noted that NIHE was investigating whistle-blowing allegations in respect of grounds maintenance received in May 2015 and April 2016. As these allegations overlapped they were investigated together. This investigation has now concluded.

² Limited opinion- there are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Part 1: Housing Benefit Expenditure

Qualified opinion due to estimated levels of fraud and error in Housing Benefit expenditure

Key Points:

- The Housing Benefit overpayment rate due to fraud and error is 3.6 per cent in 2018-19 compared to 3.7 per cent in 2017-18.
- The Housing Benefit underpayment rate due to official error decreased to 0.4 per cent in 2018-19 from 0.6 per cent in 2017-18.
- My audit opinion continues to be qualified due to the material level of estimated fraud and error in Housing Benefit expenditure.

Background

- 1.1 Housing Benefit is a means-tested benefit to help people on low income pay rent. NIHE administers this benefit on behalf of the Department for Communities (DfC) which funds customer payments and the majority of administrative costs. Eligibility depends on several factors including: income and capital; household size; age; circumstances and rent levels. In 2018-19 NIHE spent £621.1 million (2017-18: £647.8 million) on Housing Benefit.
- 1.2 In 2013 the Westminster government introduced a wide range of changes to the social security (benefits) system known as 'Welfare Reform'. Legislation to enable this in Northern Ireland was introduced in November 2015 and the first benefit reforms began in 2016. The roll out of Universal Credit (UC) to new claimants, and claimants with a change in circumstances, began in September 2017 and was completed in December 2018. UC will replace six benefits, one of which is Housing Benefit. The planned migration of claimants from the six benefits to UC has been deferred and is now due to commence in late 2020. The decrease in Housing Benefit expenditure between 2017-18 and 2018-19 (see Figure 1) is due to the introduction of UC. As UC rolls out further, expenditure on Housing Benefit will continue to decrease. UC payments are made by the Department.

Figure 1: Decrease in Housing Benefit Expenditure 2014-15 to 2018-19

	2014-15	2015-16	2016-17	2017-18	2018-19
Total Housing Benefit Expenditure	£671m	£680m	£675m	£648m	£621m

Source: The Department

- 1.3 The Department is continuing to administer a Welfare Supplementary Payment scheme until 31 March 2020 to award mitigation payments for those claimants affected by the above welfare reform changes. To date there is no provision within legislation to make alternative arrangements or to continue with existing mitigation arrangements, after March 2020.

Arrangements for monitoring and reporting of fraud and error

- 1.4 The Department's Standards Assurance Unit (SAU) regularly monitors and provides estimates of the level of fraud and error within ongoing Housing Benefit claims. Fraud and error arises in different ways:
- **Customer fraud**, which arises when customers deliberately seek to mislead the Housing Executive;
 - **Customer error**, which arises when customers make inadvertent mistakes with no fraudulent intent; and
 - **Official error**, which arises when Housing Benefit, is paid incorrectly due to inaction, delay or a mistake by NIHE.
- 1.5 SAU reviews are based on a sample of benefit claims and are therefore subject to statistical sampling uncertainties. My staff examine the work undertaken by SAU and I am content that the results produced by them are a reliable estimate of the total fraud and error in the Housing Benefit system.

1.6 The criteria that are used to determine the entitlement to Housing Benefit, and the method to be used to calculate the amount due to be paid, is set out in legislation. Where fraud or error has resulted in an over or underpayment of benefit to an individual, who is either not entitled to Housing Benefit, or is paid at a rate which differs from that specified in the legislation, these payments have not been made in line with the governing legislation. Overpayments of Housing Benefit as a result of customer fraud, customer error or official error, and underpayments as a result of official error, are considered to be irregular. Underpayments due to customer error are not considered irregular as customers can decide not to claim benefits.

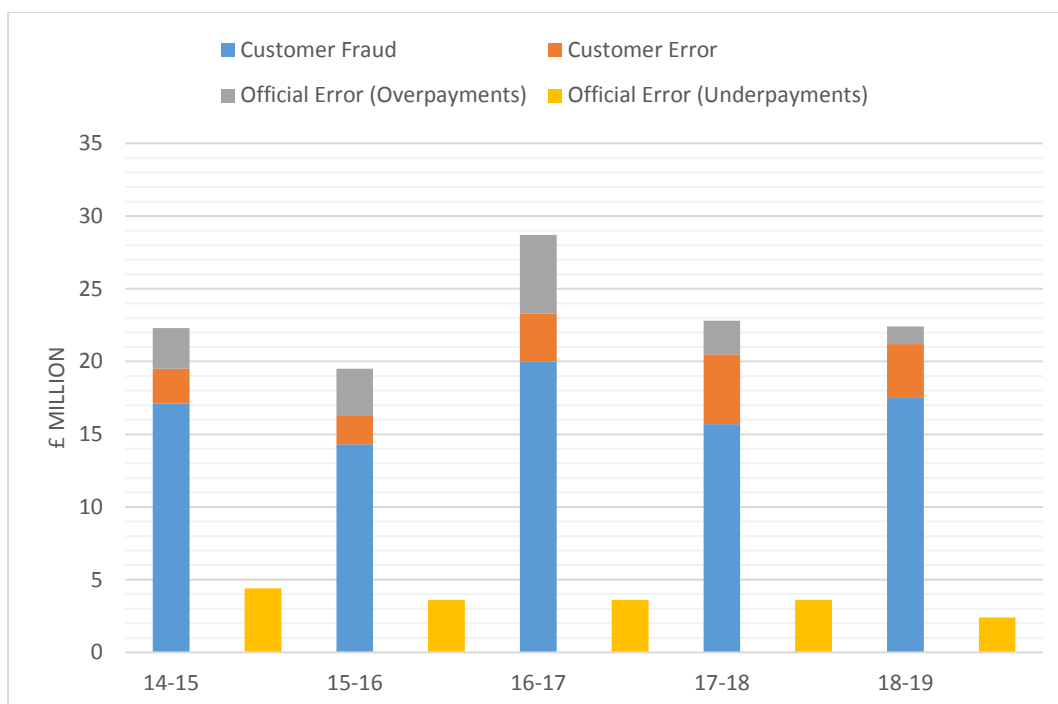
Results of the SAU's testing in 2018-19

1.7 The SAU reports the results of its testing on a calendar year basis to facilitate the timetable for the production of the financial statements. The amount of Housing Benefit expenditure paid in the 2018 calendar year was £616.4 million whereas the amount paid out in the financial year 2018-19 was £621.1 million, as disclosed in Note 7 to the accounts. I consider there are no underlying factors which mean the error rate for the 2018 calendar year cannot be applied to the financial year 2018-19.

1.8 Note 29 to the accounts (entitled 'Fraud and Error') details the estimated levels of fraud and error, based on the SAU's work, in 2018 (see Figure 2). This shows that the total amount of estimated irregular payments in 2018-19 was £24.78 million comprising:

- Overpayments due to customer fraud or error and official error of £22.40 million (3.6 per cent of Housing Benefit payments); and
- Underpayments due to official error of £2.38 million (0.4 per cent of Housing Benefit payments expenditure).

Figure 2: Breakdown of estimated levels of fraud and error by type, 2014-15 to 2018-19



	2014-15	2015-16	2016-17	2017-18	2018-19
Overpayments due to:	£m	£m	£m	£m	£m
Customer Fraud	17.1	14.3	20.0	15.7	17.5
Customer Error	2.4	2.0	3.3	4.8	3.7
Official Error	2.8	3.2	5.4	2.3	1.2
Total overpayments	22.3	19.5	28.7	22.8	22.4
	%	%	%	%	%
% of overpayments	3.4	2.9	4.3	3.7	3.6
	£m	£m	£m	£m	£m
Total underpayments due to Official error	4.4	3.6	3.4	3.6	2.4
	%	%	%	%	%
% of underpayments	0.7	0.5	0.5	0.6	0.4

Source: The Department

1.9 Figure 2 shows that the total estimated level of overpayments has decreased slightly from £22.8 million to £22.4 million (1.7 per cent) this year.

- 1.10 The largest element of Housing Benefit overpayments is customer fraud which has increased by £1.8 million to £17.5 million. NIHE told me the main reason for the increase in levels of customer fraud detected is attributed to claimants failing to declare increases in their earnings. This category accounted for almost half of customer frauds. As part of the “Invest to Save” exercise the NIHE is working with the Department and are reviewing 5,000 claims per year where there has not been any declaration of a change in earnings from the claimant. It is envisaged that this will reduce the levels of customer fraud. While it is disappointing that overpayments due to fraud have increased this year, I note the initiatives (described below) which the NIHE is undertaking to reduce the level of fraud and error.
- 1.11 Overpayments as a result of official error have decreased from £2.3 million in 2017-18 to £1.2 million in 2018-19. Underpayments due to official error have also decreased from £3.6 million in 2017-18 to £2.4 million in 2018-19. As official errors arise from mistakes by NIHE staff, reducing these errors are directly within NIHE’s control. NIHE has attributed official error over and underpayments to a high turnover of staff within HB units. However, significant investment in training has been made which has been targeted to areas where errors have been detected. Support Officers are in place in each of the six Housing Benefit Units to provide ongoing training to Housing Benefit Staff. The levels of errors have decreased during 2018 and the NIHE remains focused on continuing to reduce levels of official error.

Comparison with other GB jurisdictions

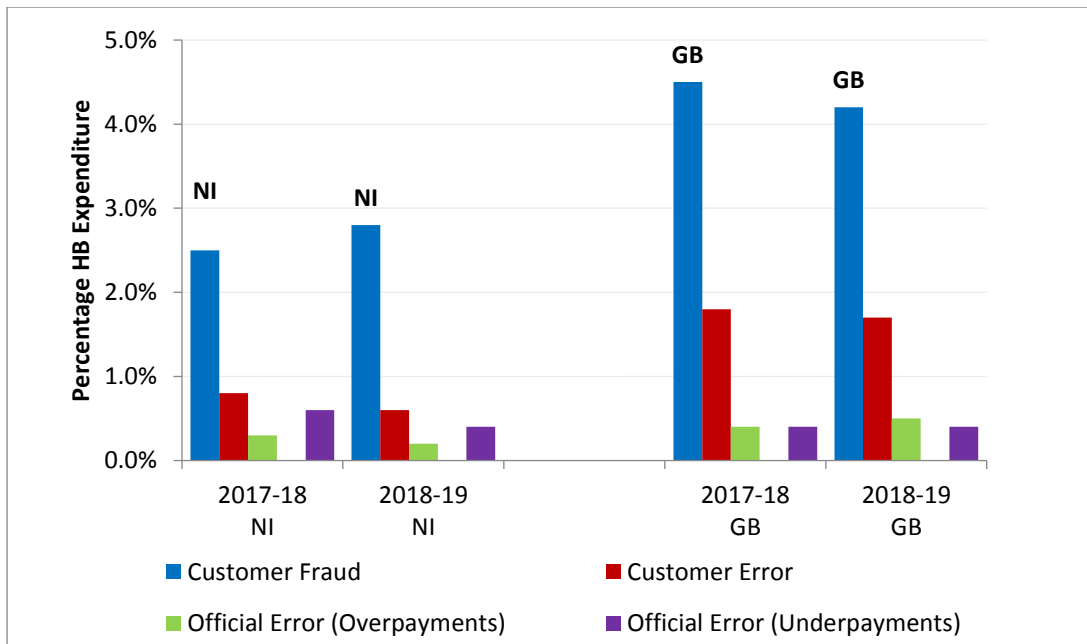
- 1.12 While welfare powers have been devolved to the Assembly they have not been devolved to the Scottish or Welsh governments. Accordingly, the Department of Work and Pensions (DWP) reports estimate fraud and error figures for Great Britain (GB) as a whole. Statistics for the individual jurisdictions, however, are not available. Figure 3 compares estimated fraud

and error rates for over and underpayment of Housing Benefit in Northern Ireland with those in GB. The latest projections show that NIHE continues to have Housing Benefit fraud and error overpayment rates below that of GB. In addition, in 2018-19, the official error underpayment rate in Northern Ireland has reduced and is now similar to that in GB. The main area of concern in GB is overpayments due to customer fraud and error as a result of failure to declare earnings and employment.

Figure 3: Comparison of the rate of estimated Housing Benefit fraud and error between Northern Ireland and GB for 2017-18 and 2018-19

	Northern Ireland		GB ³	
	2017-18	2018-19	2017-18	2018-19
Total Housing Benefit Expenditure	£0.6bn	£0.6bn	£22.3bn	£20.8bn
Overpayments due to:	%	%	%	%
Customer Fraud	2.5	2.8	4.5	4.2
Customer Error	0.8	0.6	1.8	1.7
Official Error	0.4	0.2	0.4	0.5
% of overpayments	3.7	3.6	6.7	6.4
Underpayments due to:				
Official Error				
% of underpayments	0.6	0.4	0.4	0.4

³ DWP, Fraud and Error in the Benefit System – 2018-19 Estimates, 9 May 2019.



Source: The Department and DWP

Developments by NIHE in uncovering and addressing Fraud and Error

1.13 NIHE has outlined in its Governance Statement various initiatives undertaken to uncover fraud or error which I welcome. These include:

- Continued use of Real Time Information (RTI) to match information on earnings and occupational pension data held by HMRC. These are the two areas acknowledged as the largest sources of fraud and error;
- From October 2018, NIHE introduced a new initiative – Verification of Earnings and Pensions Alerts (VEP). This provides details on earned income held by HMRC and supersedes the use of RTI. VEP Alerts are provided when claimant income varies. As VEP Alerts are generated on a daily basis, it will provide more timely information to prevent Housing Benefit overpayments arising;
- Earned Income Review – a review of 5,000 cases where claimants have not declared a changes to their earned income, using the VEP facility;

- Data cleansing of a number of categories of Housing Benefit claims, in preparation for the migration to UC to ensure the information for all benefits and incomes on the claim was correct; and
- Other data matching activities using the Housing Benefit Data Matching Service.

NIHE believe the overall impact of the above initiatives resulted in overpayment of £8.5 million being detected and when the impact of preventing future losses is taken into account, NIHE has estimated the savings made are £21 million.

Qualification of regularity opinion due to estimated level of fraud and error in housing benefit payments

- 1.14 In reaching the decision to qualify my audit opinion, I recognise that there is an inherent risk of fraud and error in the administration of a complex benefit system which makes it difficult for NIHE to reduce the estimated rate of fraud and error further from its current level.
- 1.15 Nevertheless, the estimated levels of fraud and error in Housing Benefit expenditure remain material at £24.78 million, and I consider this to be irregular as this expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly. Therefore, I have again qualified my regularity audit opinion for 2018-19 in this area.

Part 2: Other Matters

Internal Audit review of HR function

- 2.1 In my 2016-17 and 2017-18 reports on NIHE's financial statements I highlighted concerns raised by the Department for Communities' Internal Audit (2016-17) and NIHE's Internal Audit (2017-18) regarding NIHE's Human Resources (HR) function. In 2017-18 NIHE Internal Audit provided a limited audit opinion on HR
- 2.2 In 2018-19 Internal Audit reported on further areas of HR activity and once again issued a limited opinion. Significant issues noted included:
 - Internal Audit reviewed the investigation processes for both harassment and grievance cases. It noted that whilst there were clearly defined policies in place, together with a code of conduct, there were serious weaknesses in the application of the policy when conducting investigations. Internal Audit concluded there was an increased risk to NIHE that
 - investigations may be completed inconsistently, with a lack of supporting documentation, leading to a serious reputational risk for NIHE. This may also result in legal and financial risk for NIHE where investigations are challenged'.
 - Internal Audit made recommendations relating to the application of sick absence/leave (both flexi and time in lieu) policies. For example Internal Audit identified 74 staff with deficit balances of more than 100 hours with a further 32 having balances greater than 500 hours. These balances increase the risk of disrupting NIHE's business or may ultimately be a cost to NIHE, as this is time owed by staff. As part of its review of these policies

Internal Audit also concluded NIHE management needed to carry out quality assurance of the underpinning data on its HR systems.

2. 3 Internal Audit also carried out a separate audit of payroll (given a limited opinion). This audit noted that a member of staff had left NIHE over 2 years ago. His line management had notified the HR Absence Management Team but that the individual continued to be paid. The total value of the overpayment is estimated to be in the region of £40,000 and covers the period October 2016 to January 2019. Internal Audit has recommended a joint investigation is carried out by HR and payroll to determine how this happened. NIHE is currently pursuing options to recover the overpayment including legal proceedings. NIHE has had a positive response from the individual.

2. 4 As part of its routine follow up of recommendations previously raised, Internal Audit reviewed progress on the recommendations included in the earlier reviews of HR. In total there were 6 priority 1⁴ recommendations and 5 priority 2⁵. As of June 2019, none of the recommendations had been implemented. NIHE's Audit and Risk Assurance Committee (ARAC) June 2018 minutes record that ARAC

' expressed serious concerns regarding the number of priority 1 recommendations and the implications for the organisation. The Committee felt that the absence of controls around routine processes presented a risk to the organisation.'

2. 5 ARAC had also endorsed the need for a peer review of the HR function. This has also not yet happened. NIHE told me that the expenditure for the peer review was approved in late 2018 at which stage the recruitment of a new Director of Corporate Services was imminent. Given the focus of the role on

⁴ Priority 1 is defined as 'failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds'

⁵ Priority 2 is defined as 'failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.'

HR/Organisational Development, it was considered prudent to wait until the new Director commenced employment with NIHE. The Director has now taken up post and is carrying out a full review which may negate the need for a peer review.

2. 6 A considerable period of time has elapsed since issues in NIHE's HR function were first raised in August 2016. However there is little evidence of progress on implementing the Internal Audit recommendations that addressed serious weaknesses in the application of HR procedures. I asked NIHE why this was the case and if this was representative of how NIHE responded to Internal Audit findings in other parts of NIHE. NIHE told me that key senior staff with responsibility for taking forward the recommendations had left NIHE during 2018/19. Given that the issues had been raised in 2016 and had therefore existed for some time, it was also recognised that the situation would take considerable time and work to address – this was borne out by the audit findings and recommendations. With regard to how NIHE responds to Internal Audit findings, NIHE confirmed that it takes audit recommendations seriously and provides a detailed response to each audit report. This includes the action(s) to be taken and completion dates. However, there has been slippage against agreed dates, which with hindsight and further consideration, now look to have been somewhat ambitious. In the specific case of Human Resources, it was recognised that more fundamental work was required in support of implementing the recommendations. During 2019/20, priority will be given to ensuring their outstanding recommendations are implemented in full.
2. 7 The head of IA has reflected her ongoing concerns on the implementation of Internal Audit's HR recommendations in an overall limited opinion for NIHE in respect of 2018-19. This matter has been reflected in the Governance Statement.

2.8 The Head of Internal Audit has stated her,

‘opinion that the control framework is not operating effectively to mitigate key risks is solely based on internal audit activity carried out during 2018-19 and the significant numbers of critical risk issues being identified from advisory and assurance reviews in additions to my concerns regarding management’s approach to resolving identified issues.’

2.9 Two years after first noting serious concerns with the HR function in NIHE I continue to note a lack of progress in addressing matters identified by NIAO and Internal Audit. During my audit I found that the Board has been pressing NIHE management for action on HR issues. This together with the Head of Internal Audit’s overall Limited Opinion and my reports (in 2016-17 and 2017-18), are clear indicators that urgent remedial action is needed within NIHE’s HR function. I will report on this matter for a fourth time in 2019-20. I expect the report to note the improvements in NIHE’s HR function which should have been evident in 2018-19.

Grounds Maintenance

2. 10 I noted in my report last year that NIHE continued to investigate whistle-blowing allegations received in May 2015 and April 2016. The whistle-blowers had concerns about payments being made to grounds' maintenance contractors for land that was no longer owned by NIHE or had a change of use.
2. 11 The investigation finished in November 2018 and concluded that information on land owned by NIHE had not been kept up to date. The IT system NIHE used for land records was also used to generate grounds maintenance payments to contractors. Land that had been disposed of by NIHE, or had a change of use, had not been recorded resulting in overpayments to grounds maintenance contractors.
2. 12 The current contract for grounds maintenance was let in April 2016 and runs to April 2024. Under this contract, work is provided by two contractors, one of which is the Direct Labour Organisation (DLO), part of NIHE. NIHE's Counter Fraud and Security Unit (CFSU) calculated over the period May 2016 to September 2018 that a total of £377,000 had been overpaid to the two grounds maintenance contractors over and above the total £9.4m which was due to be paid . Of the £377,000, DLO was overpaid £97,000 and the other contractor £280,000.
2. 13 NIHE is content that the grounds' maintenance overpayments do not indicate fraud on the part of the contractors involved. NIHE is considering its recovery options. As part of its investigation CFSU re-measured approximately 16,000 plots of land and IT systems were updated to reflect the appropriate NIHE land holding. Corresponding changes were made to contractor's payments at the same time.
2. 14 The current grounds maintenance contract runs to April 2024. I asked NIHE if it had assessed how much will have been saved between the point when

overpayments were stopped, and April 2024. NIHE told me that it could not provide a sufficiently accurate figure to include in this report. However I believe it can be inferred, from a very simple straight line extrapolation, which, if the level of overpayment on this contract had continued due to similar circumstances, it could have been at least £1.3m. It is appreciated this does not take into account the impact on payments arising from any future transfers/disposals of land.

2. 15 NIHE told me CFSU has made a number of recommendations to address the matters raised through its investigation to ensure this type of issue does not recur. This case clearly demonstrates the potential value to the public sector of information provided by whistle-blowers. Although I recognise the scale of the review undertaken by NIHE, I would ask NIHE to assess if every step possible was taken to conclude this matter at the earliest opportunity. An earlier conclusion to the CFSU investigation may have reduced the £377,000 loss recorded by NIHE. NIHE told me that the investigation took a significant amount of time due to the large amount of detailed work (e.g. surveying 16,000 individual plots of land) and resources required to complete it.

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July 2019