

Certification of claims and returns annual report 2016-17

Reading Borough Council

February 2018

Ernst & Young LLP



EY

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The Members of the Audit & Governance Committee
Reading Borough Council
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Dear Members

Certification of claims and returns annual report 2016-17 Reading Borough Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Reading Borough Council's 2016-17 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

In addition to this, we also acted as reporting accountants in relation to 2 returns outside the PSAA's regime.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £74,990,371. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at the 17th April Audit & Governance Committee.

Yours faithfully

Maria Grindley
Associate Partner
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£74,990,371
Amended/Not amended	Amended – subsidy reduced by £13,398
Qualification letter	Yes
Fee – 2016-17	£17,470*
Fee – 2015-16	£34,591

*Further details of the fees can be found at section 3

Recommendations from 2015-16	Findings in 2016-17
<ol style="list-style-type: none"> 1. Undertake a sample (minimum of 5%) check of claims on a regular basis with greater emphasis on known problem areas. 2. Report the outcome of the sample checking to management and members on a regular basis. 3. Remind assessors of the errors identified as part of the Housing benefits work undertaken by EY and provide additional training and monitoring of work on a regular basis. 4. Set improvement targets for bringing down the error rate and reducing the amount of subsidy lost. 	<p>Given the scale of the errors identified in 2016-17 we would recommend that these recommendations remain a key focus for the housing benefits team in 2017-18.</p>

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Cell 11 Non-HRA

Our initial testing did not identify any errors in respect of earned income.

However due to the errors from the prior year on earned income, the Local Authority went straight to 40+ extended testing on a combined sub-population of earned income. This was in

line with DWP methodology in respect of prior year errors. Testing of an additional sample of 40 cases identified:

- 13 cases failed from the extended population of earned income non-HRA cases with 6 cases resulting in overpayments.

We reported the value of the extrapolated error of £487 in our qualification letter to the DWP.

Cell 55 HRA

Cell 55 - Earned Income:

Our initial testing did not identify any errors in respect of earned income. However due to the errors from the prior year on earned income, the Local Authority went straight to 40+ extended testing on a combined sub-population of earned income. This was in line with DWP methodology in respect of prior year errors. Testing of an additional sample of 40 cases identified:

- 10 cases failed from the extended population of earned income HRA cases with 3 cases resulting in overpayments.

We reported the value of the extrapolated error of £2,794 in our qualification letter to the DWP.

Cell 55 - Occupational Pension:

Testing of the initial sample identified:

- 1 case which failed due to errors in the occupational pension calculation which resulted in an overpayment.

Testing of an additional sample of 40 cases identified:

- 7 cases failed with 3 cases (total value £8,790.2) where the Authority had overpaid benefit as a result of incorrect calculation of occupational pension.

We reported the value of the extrapolated error of £482 in our qualification letter to the DWP.

Cell 55 – Start Dates:

No errors were identified in our initial testing in respect of incorrect assessment of start dates. Due to errors identified in the prior year the Local Authority proceeded to 40+ extended testing on a combined sub-population of start dates. This was in line with DWP methodology in respect of prior year errors. Testing of an additional sample of 40 cases identified:

- 4 cases which failed with 3 cases (£3,392) where the Authority had overpaid benefit as a result of the incorrect start date.

We reported the value of the extrapolated error of £1,483 in our qualification letter to the DWP.

Cell 55 – Child Care Costs:

Testing of the initial sample identified:

- 1 case which failed due to incorrect determination of Child Care Costs but with no impact on subsidy. Due to the fact that the error could have resulted in an overstatement, the authority performed 40+ extended testing on a sub-population of cell 55 cases with child care costs. This is line with DWP methodology.

Testing of an additional sample of 40 cases identified:

- 12 cases that failed with 6 cases (total value £27,937.95) where the Authority had overpaid benefit as a result of incorrect Child Care Costs.

We reported the value of the extrapolated error of £6,758 in our qualification letter to the DWP.

Cell 94 Rent Allowances

Cell 94 - Earnings

Testing of the initial sample identified:

- 2 cases which failed due to the incorrect assessment of earned income. Both of these errors resulted in overpayments.

In line with DWP guidance we completed extended testing on a sub-population of Rent Allowance cases with earnings. Testing of an additional sample of 40 cases identified:

- 13 cases which failed with 2 cases (total value £16,949.64) where the Authority had overpaid benefit as a result of incorrect calculation of weekly earnings.

We reported the value of the extrapolated error of £20,422 in our qualification letter.

Cell 94 – Start Dates

Testing of the initial sample identified:

- 1 case which failed due to incorrect start date which resulted in an overpayment.

Due to errors from the prior year on start dates, the Local Authority went straight to 40+ on a combined sub-population of start dates. This was in line with DWP guidance.

Testing of an additional sample of 40 cases identified:

- 4 cases which failed with 1 case (total value £1,097.73) where the Authority had overpaid benefit as a result of incorrect start date.

We reported the value of the extrapolated error of £2,912 in our qualification letter.

Cell 94 – Self-Employed Income

Our initial testing did not identify any errors in respect of Self Employed income. Due to errors from the prior year on Self Employed income, the Local Authority went straight to 40+ on a combined sub-population of Self Employed income.

Testing of an additional sample of 40 cases identified:

- 18 cases which failed with 3 cases (total value £25,638.72) where the Authority had overpaid benefit as a result of incorrect calculation of weekly Self Employed income.

We reported the value of the extrapolated error of £4,732 in our qualification letter.

Cell 102 – Rent Charges

Testing of the initial sample identified:

- 1 case which failed due to incorrect assessment of rent which resulted in an overpayment.

Testing of an additional sample of 40 cases identified:

- 3 cases failed (total value £14,014.23) where the Authority had overpaid benefit as a result of incorrect calculation of weekly rent.

We reported the value of the extrapolated error of £21,112 in our qualification letter.

Cell 102 – Service Charges

No errors were identified in the initial testing relating to Service Charges. However due to errors from the initial testing on service charges in prior years, the Authority went to 40+ extended

testing on a combined sub-population of service charges. Testing of an additional sample of 40 cases identified:

- 4 cases which failed (total value £6,074.20) where the Authority had overpaid benefits as a result of the incorrect calculation of weekly service charges.

We reported the value of the extrapolated error of £439 in our qualification letter.

Cross Cutting Classification errors

We also identified a number of cross cutting classification errors which had no impact on subsidy.

2. Other assurance work

During 2016-17 we also acted as reporting accountants in relation to the following schemes:

- ▶ Teachers pensions
- ▶ Housing pooling return

This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in Section 3. They are referred to here to ensure Members have a full understanding of the various returns on which we provide some form of assurance.

As at the date of this report we had certified the Teachers pensions claim. We did not identify any significant issues from this work that need to be brought to the attention of Members.

We are still completing the work on the Housing pooling return and will provide a verbal update to the Audit Committee at the next meeting.

3. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	£17,470	£12,458	£34,591*
Teachers pensions	£10,000	£10,000	N/A**
Housing pooling return	£6,000	£6,000	N/A**

* The 2015-16 Housing benefits subsidy claim fee is made up of a scale fee of £20,187 and a scale fee variation of £14,404. The 2016-17 actual fee is made up of a scale fee of £12,458 and a scale fee variation of £5,012.

** We did not undertake the certification work in 2015-16 in respect of Teachers Pensions or the Housing Pooling Return.

4. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 housing benefits subsidy claim is £34,591. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:
<https://www.psa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

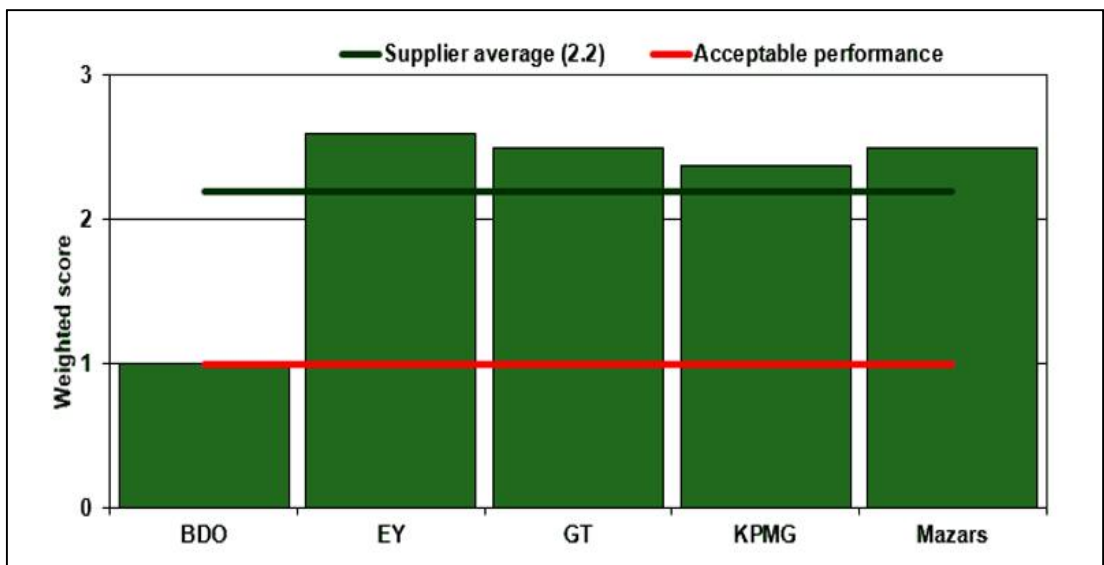
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Finance before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we were also appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

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Briefing Note

To: AUDIT & GOVERNANCE COMMITTEE

Date: 17 APRIL 2018

From: KIRSTY ANDERSON

Ref:

1.0 Purpose

1.1 Further to the report to September's Audit and Government Committee, this briefing note provides an update on the on-going work the service are undertaking to mitigate against further loss of Housing Benefit Subsidy by the Council and addresses the recommendations included in the External Auditors Annual Certification Report which appears elsewhere on the Agenda.

2.0 Summary

2.1 As members are aware, loss of Housing Benefit Subsidy arises due to overpayments of Housing Benefit arising from either Local Authority Error, or Administrative delay.

2.3 A "Local Authority Error Overpayment" is caused by a mistake of fact or law (whether an act or an omission) by the Council.

2.4 "Administrative Delay" overpayments are caused by a delay in the Council processing a notified 'change in circumstance', where the Council is in receipt of all the information necessary to make a decision and adjust a claimant's benefit, but fails to do so in time for the next benefit payment date.

2.5 Subsidy losses in prior years and reported previously, were as follows:

- £659,793 in 2014/15
- £525,062 in 2015/16

2.6 The loss reported for 2016/17 and included in the Annual Certification Report is £223,876. This is a significant reduction on previous years and represents 0.29% of the total value of the claim (£74,990,371).

2.8 In order to continue to mitigate future losses and prevent errors and delay in processing the following measures have been introduced within the Team:

- An external provider has been engaged to carry out 10% quality check sampling (10%) of all assessments (more than twice the national guidance of 4%). Performance is monitored and discussed with individual assessors in their performance meetings. As a direct result of this approach we have put additional training in place where necessary for individuals and subsequently taken the

decision to dismiss 2 members of staff who subsequently continued to fail to meet the required quality standard.

- A Subsidy expert has been appointed to provide targeted and intensive training to support staff. Refresher and new training is provided on a monthly basis to ensure the Team are aware of any new legislative requirements and that issues identified through the quality checks are addressed quickly and cases corrected. This expert also supports the Housing Benefit Subsidy Officer in the correcting and identification of invalid claims, as well as providing additional capacity to the Team when completing the workbooks for auditors both internally and externally. As a result of this work monthly Subsidy reports are now provided to senior management in order for our position to be monitored in year.
- A range of new procedures for Earned Income, Self Employed, and Universal Credit amongst others have been introduced to ensure a consistent approach is being taken by all staff and to ensure quality. These policies are drawn from best practice guidance from organisations such as DWP, CIPFA, IRRV and EY.
- We continue to embed our Risk Based Verification Policy to prevent fraud and error entering our system at the point of a new claim.
- We have been working with the DWP and invited their Performance Delivery Team to review our approach to identifying and recovering overpayments. This has enabled us to access additional funding internally, to recruit two additional overpayment officers into the Team. This has seen a significant increase to our performance on recovery of Housing Benefit debt. A report will be issued shortly from the DWP recognising our improvement and the success of this joint working.
- We have been accepted on to a range of working pilots with the DWP including the verification of earnings and pensions through HMRC, as well as access to Debt Recovery Database. This will ensure we verify actual earnings and pension figures via HMRC leading to less calculation errors on income by our Team.
- We continue to benchmark our approach to processing with other neighbouring authorities to ensure quality and performance. We have procured a further 12 month contract with our Resilience Partner to mitigate delays in processing 'changes of circumstance', so that we reduce our loss in 'administration delay'. This is critical as we continue to see large volumes of changes coming into the Team due to the nature of the caseload being over 60% of working age and a significant proportion in work, effecting higher than average changes in the cycle of their claim. This approach also supports the increasing difficulty we are having in recruiting benefit assessment staff due to the continuing roll out of Universal Credit which is seeing staff across the industry leaving for other vocations which is an issue now for most Local Authorities

3.0 Conclusions/Recommendations

- 3.1 The calculation of Benefit is complex particularly for claimants who are moving in and out of work or between jobs. The workload of the team has also increased with the roll out of Universal Credit and the need to respond to numerous DWP

notifications per claimant arising from systems issues their end. However, as demonstrated above, the focused approach to performance management and training as well as the other initiatives has reaped benefits in terms of lower Subsidy loss. The Team will continue to embed this good practice going forward to minimise loss.

4.0 Further information

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