

Certification of claims and returns annual report 2014-15

Horsham District Council

February 2016

Ernst & Young LLP



EY

Building a better
working world

The Members
Accounts, Audit and Governance Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex, RH12 1RL

February 2016
Ref:

Direct line: 0118 928 1556
Email: pking1@uk.ey.com

Dear Members

Certification of claims and returns annual report 2014-15 Horsham District Council

We are pleased to report on our certification work. This report summarises the results of our work on Horsham District Council's 2014-15 claims.

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.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. 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.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £31,572,184. We met the submission deadline. We issued a qualification letter, details of which are also included in section 1. Our certification work found errors which had an impact on the subsidy paid.



Last year we made five recommendations. The Council has made progress in implementing these recommendations, although improvements were not expected to be fully realised in the 2014-15 period. Details are included in section 4.

Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the Accounts, Audit and Governance Committee meeting in March 2016.

Yours faithfully

Paul King
Executive Director
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim	1
2. 2014-15 certification fees	4
3. Looking forward.....	5
4. Summary of recommendations	6

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£31,572,184 (amended value – see below)
Amended/Not amended	Amended – subsidy decreased by £1,038. Further details of reasons for amendment are set out below.
Qualification letter	Yes
Fee – 2014-15	£16,510
Fee – 2013-14	£20,845
Recommendations from 2013-14	We identified five recommendations in 2013-14 which remain relevant for 2014-15. Our assessment of progress against these recommendations is set out in Section 4.

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 three samples of 20 cases for authorities with a Housing Revenue Account (HRA), covering HRA Rent Rebate, Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases. Where errors are identified in our initial testing, more extensive testing on an additional sample of 40 cases (or the total population if less than 40), for each error found. This is known as “40+” testing. We found errors and carried out extended testing in several areas.

The indicative fee for 2014-15 is based upon the final fee for 2012-13, and the volume of additional testing required in 2014-15 was similar to that undertaken in 2012-13.

The “40+” testing identified a number of cases where similar errors had occurred. Where we tested 100% of the population, the Authority amended the claim form.

For those “40+” tests where we did not test the whole population, we extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. This was then reported in our qualification letter, but no amendment was made to the claim form.

The DWP then decides whether to ask the Authority to carry our further work to quantify the error or to claw back the benefit subsidy paid.

A summary of the key issues found is shown below:

- Claimant Income
 - Non-HRA Rent Rebates: Our initial testing identified two cases where a claimant’s income was incorrectly calculated due to an error in calculating Schedule E earned income or an incorrect figure had been used for Child Tax Credits. Similar errors were identified in the prior year. An additional sample of 40 Non-HRA Rent Rebate cases containing an income assessment were therefore selected and tested. The additional testing identified seven further errors. We calculated an extrapolated error of £13 which is reported in our qualification letter.

- **Rent Allowances:** Our initial testing identified six cases where a claimant's income was incorrectly calculated due to incorrect calculation of Schedule D self-employed income, Schedule E earned income or an incorrect figure had been used for Working Tax Credits or Child Tax Credits. An additional 40 Rent Allowance cases containing an income assessment were therefore selected and tested. The additional testing identified a further 30 errors. We calculated an extrapolated error of £42,551 which is reported in our Qualification Letter and has been requested to be repaid by the DWP.
- **Rent Cost**
 - **Rent Allowances:** We identified one case where rent costs were incorrect. An additional 40 Rent Allowances cases were selected and tested to confirm the correct rent had been applied. Three further errors were identified from the additional sample. As the errors all resulted in an underpayment, no extrapolation was performed. This is reported in our Qualification Letter.
- **Overpayments**
 - **Non-HRA Rent Rebates:** Our initial testing identified one case where a prior year overpayment was misclassified as an eligible prior year overpayment rather than a technical prior year overpayment (£69). The total remaining population of 22 eligible prior year overpayment Non-HRA Rent Rebate cases were therefore tested. This identified a further five errors:
 - one case which was not a genuine overpayment and therefore cell 33 is overstated by £162 with no corresponding understatement;
 - two cases where benefit was overpaid as a result of LA error and admin delay (£586); and
 - two cases where the overpayment of benefit should have been classified as a technical overpayment but had been incorrectly classified as eligible excess benefit (£135).
 - **Non-HRA Rent Rebates:** Our initial testing identified three cases where a current year overpayment was misclassified. Similar errors were identified in the prior year. The remaining population of 29 current year eligible overpayment Non-HRA Rent Rebate cases were therefore tested. This identified a further 10 errors:
 - one case where benefit was overpaid as a result of LA error and administrative delay (£61); and
 - nine cases where the overpayment of benefit should have been classified as a technical overpayment but had been incorrectly classified as eligible excess benefit (£1,213).
- **Modified Schemes:**
 - Testing of our initial sample identified two Rent Allowance cases where an incorrect value for the war pension and one case where an incorrect value for the care attendance allowance had been used in the benefit calculations (increasing the modified scheme value by £9,459 and reducing the Rent Allowances claim cells by £9,652 and increasing the prior year eligible overpayments by £193). Errors had also been identified in modified scheme cases in 2013-14. The remaining population of 12 cases was tested for the war pension, care attendance allowance and state retirement pension and two further errors identified. The claim form was amended to correct these errors (increasing the modified scheme value by £543 with a corresponding decrease in the rent allowance claim cells).

As part of the CenSus's action plan in response to our findings and recommendations in our 2013-14 work, a large amount of work was carried out during 2014-15 to provide training to

staff members and to correct claims. This resulted in a high level of identified LA error and administrative delay overpayments before we commenced our audit. The total of the extrapolations and errors in the qualification letter amounted to £42,572, which increased eligible overpayments by £35 and LA error and administrative delay overpayments by £42,537. Where extrapolations impact the LA error and administrative delay overpayments balance, the DWP usually require that the extrapolation amount is repaid to the DWP.

The DWP review the combined LA error and administrative delay overpayments balance, taking the subsidy claim form value and the extrapolations and, where this breaches the upper threshold, the total LA error and administrative delay overpayments incurred during the year are required to be repaid to the DWP. The LA error and administrative delay overpayments upper threshold was £164,717 and the total of the amended claim form total (£145,679) and the extrapolation effect on the LA error and administrative delay overpayments (£42,537) is £188,216. This breaches the threshold and therefore the subsidy claim form total for LA error and administrative delay overpayments of £145,679 is required to be repaid to the DWP.

The DWP has responded to our qualification letter as a result of our testing and confirm that the amount due to be repaid to the DWP is £188,216.

2. 2014-15 certification fees

The Audit Commission determine a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	20,845	16,510	16,510
Total	20,845	16,510	16,510

The indicative fee for 2014-15 is based upon the final fee for 2012-13, and the volume of additional testing required in 2014-15 was similar to that undertaken in 2012-13. The fee is significantly less than the 2013-14 fee because the DWP has not requested any additional work in respect of 2014-15.

3. Looking forward

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 2015-16 is £12,360. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201516-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 Corporate Resources before seeking any such variation.

4. Summary of recommendations

Our findings from our 2014-15 work are similar to those from 2013-14, where a number of recommendations were raised. We therefore believe it appropriate for the authority to continue to implement those recommendations raised in 2013-14. These are outlined below, together with our assessment of progress to date.

Recommendation		Priority	Agreed action and comment	Deadline	Responsible officer	Progress To Date
1	Review the CenSus Quality Plan to ensure that it is robust and addresses the weaknesses reported in the 2013-14 qualification letter.	High	A Quality plan was Implemented as a result of the 2012-13 certification work. This plan was internally audited and assurance given that the actions in the plan had been effectively undertaken. Some elements of the plan have been incorporated into 'everyday business' and are ongoing. A further plan based on the 2013-14 certification work was developed and was finalised following the DWP Performance Development Team visit to offer guidance and advice.	31/03/15	Tim Delany, Head of Revenues and Benefits (CenSus)	We are aware that a Quality Plan has been prepared and that CenSus are implementing this.
2	Monitor progress against the CenSus Quality Plan and report progress to the CenSus Programme Board (CMB) and CenSus Joint Committee (CJC).	High	Activity and outcomes related to the 2013-14 action plan have been reported at each PMB and CJC. The Benefits Manager reported and discussed progress with the Head of Service each month.	Ongoing	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.
3	Increase quality assurance checks and	High	Additional staff were deployed to complete an exercise to review all	Ongoing	Morag Freitas, CenSus Benefit	We have seen evidence of the Quality Plan implementation, with fewer errors identified

	implement training in areas where errors have been identified including self-employed and earned income.		earned income and self-employed cases and to conduct 100% quality checks on 'current' cases. Several strands of training have been and are being implemented.		Manager	in the areas of focus.
4	Undertake work or review the 2014-15 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	High	The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.	30/03/15	Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager	Evidence of review of the modified schemes and overpayment classification has been reviewed as part of the audit. The initial training focus was on earned income and we identified fewer errors in this area in our initial testing for 2014-15. We expect to see fewer errors in self-employed earnings in 2015-16 as the training has now been implemented in this area.
5	Introduce robust, evidenced checks on the preparation of the subsidy claim to ensure that the Director of Corporate Resources can certify the claim to state that the authority's administrative systems, procedures and key controls for awarding benefits operate effectively.	High	See above.	Ongoing - at least monthly	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com