
EXTERNAL AUDITOR REPORT: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2018/19

1 PURPOSE OF REPORT

- 1.1 To draw Members' attention to the Certification of Claims and Returns Annual Report 2018/19.

2 INTRODUCTION

- 2.1 In accordance with Department for Work and Pensions (DWP) requirements the Council must appoint an external auditor to certify the accuracy of its Housing Benefit subsidy claim. The external auditor appointed to perform this work for Rochford District Council in 2018/19 was BDO.
- 2.2 The BDO report is appended and summarises the results of the work on Rochford District Council's 2018/19 Housing Benefit subsidy claim.

3 SUMMARY

- 3.1 The report at Appendix 1 outlines the results of the 2018/19 certification work and highlights any significant issues arising. BDO checked and certified the housing benefits subsidy claim which had a total value of £15.6m. A qualification letter was issued as the work identified some errors; however, these were corrected and the reduction in grant payable to the Council by DWP was £235. Further to this DWP have extrapolated these findings across the whole of the claim resulting in a further adjustment of £5,588 being clawed back; however, this is not material compared to the overall value of the claim.

4 RESOURCE IMPLICATIONS

- 4.1 A scale fee variation increase of £10,700 for the certification of the 2018/19 housing benefits subsidy claim has been agreed to reflect the work associated with extended testing of some areas, compared to the level expected when the contract was originally awarded in November 2017. The total fee payable to BDO is £17,300, compared to £13,836 for the 2017/18 audit undertaken by EY.

5 LEGAL IMPLICATIONS

- 5.1 Certification is required by the DWP to support the Council's Housing Benefit subsidy claim for 2018/19.

6 EQUALITY AND DIVERSITY IMPLICATIONS

- 6.1 An Equality Impact Assessment has not been completed as no decision is being made.

7 RECOMMENDATION

7.1 It is proposed that the Committee **RESOLVES**

That the Certification of Claims and Returns Annual Report 2018/19 be noted.



Naomi Lucas

Assistant Director, Resources

Background Papers:-

None.

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Report to the Audit Committee
ROCHFORD DISTRICT COUNCIL
GRANTS AND RETURNS
Financial year ended 31 March 2019

INTRODUCTION

Grant Certification Work

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2019.

Assurances in respect of grant claims and returns are not within the scope of the external audit regime managed by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and a reporting accountant.

The Council has engaged us to carry out the following for the year ended 31 March 2019:

- 'Agreed-upon procedures', based on the instructions and guidance provided by the Department for Work and Pensions (DWP), of the form MPF720A - Statement of Authority claimed entitlement to Housing Benefit.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

David Eagles, Partner
for and on behalf of **BDO LLP**

6 April 2020

The contents of this report relate only to those matters which came to our attention during the conduct of our agreed procedures which are designed primarily for the purpose of expressing a conclusion or reporting the results of our work on the grants and returns subject to certification. This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

This table shows the details of the grant claim and return subject to certification by us for the financial year ended 31 March 2019.

Where our work identified issues which resulted in either an amendment and / or a qualification or reported exception, further information is provided on the following pages.

An action plan of recommendations for improvement is included in the Appendix of this report.

| Claim or return | Value of return | Qualification / exceptions | Amended | Submission date | Impact of amendments |
|-------------------------|-----------------|----------------------------|---------|------------------|--|
| Housing benefit subsidy | £15,616,060 | Yes | Yes | 30 November 2019 | Decrease in subsidy claimed of - £235 <i>NB: May be subject to further adjustments by DWP of £8,157 as a result of extrapolated errors.</i> |



FEES

Executive summary

The fees for this work are shown below:

| Claim or return | 2017/18 Actual fee | 2018/19 Planned fee | 2018/19 Actual fee | Explanation for fee amendments |
|-------------------------|-----------------------|------------------------|-----------------------|---|
| Housing benefit subsidy | £13,836* | £6,600 | £17,300 | The initial fee was proposed in our tender submission dated 9 November 2017 and was based on the information contained in the grants certification report for 2015/16. Additional work was undertaken in 2018/19 compared to this expected level. |

* In 2017/18 the Council's external auditors, EY, performed the work. The fees for the Housing Benefit Subsidy claim for 2017/18 were set by PSAA.



HOUSING BENEFITS SUBSIDY

Scheme requirements

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The draft subsidy return provided for our review recorded amounts claimed as subsidy of £15,616,295.

The final return was amended to £15,616,060.

Findings

Our review of 40 individual claimant files highlighted errors the Council made in administering benefit and calculating subsidy entitlement.

The guidance requires that reporting accountants undertake extended testing of 40 additional cases with similar characteristics ('40+ testing') if initial testing identified errors in the benefit entitlement calculation or in the classification of expenditure. Such testing is also undertaken as part of our follow-up of prior year issues reported. The results of this testing are extrapolated across the population to estimate a potential error amount. Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate. Where there is no impact on the subsidy claim, for example where the error always results in an *underpayment* of benefit, we are required to report this as an observation in our qualification letter.

Initial testing resulted in 1 new area of 100% Testing (Non-HRA Child Tax Credits and Working Tax Credits).

10 areas were tested as a result of being reported as prior year issues (Housing Benefit awarded on two homes, mid week change of address, Rent Allowance housing association rent increases, Non-HRA rent liability, Rent Allowance earned income, Rent Allowance self-employed income, Rent Allowance Child Tax Credit, Rent Allowance eligible overpayment classification, Rent Allowance claim start dates, Non-HRA eligible overpayment misclassification).

A summary of our findings can be found on the following pages.

The final claim was amended to decrease subsidy by £235 to £15,616,060

However, the potential impact resulting from the extrapolated errors, if DWP was minded to finalise the subsidy based on these findings, would impact the claim form by £8,157 (Rent Allowance housing association rent increases -£3,637, Rent Allowance self-employed income -£91, Rent Allowance Child Tax Credit -£294, Rent Allowance eligible overpayment classification -£2,694, Rent Allowance prior year eligible overpayment classification - £1,441).

Our work was completed and the claim was certified on the deadline of 30 November 2019.

HOUSING BENEFITS SUBSIDY

Housing Benefit Awarded on two homes

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that errors were made relating to adjustments where housing benefit was awarded on two homes.

Our initial sample testing in 2018/19 of Non-HRA claims, also found one error of this nature. This resulted in Cell 014 being overstated, and Cell 106 being understated, by £80.49.

Additional testing

Due to the errors reported in the prior and current years, the Council undertook 100% testing to determine the impact of this issue.

The additional testing identified 7 errors where benefit was misclassified between cells.

1 further case was identified which resulted in underpaid benefit of £5.52.

Impact

As the 7 misclassifications were identified as part of 100% testing of the population, the Council amended the claim form for these errors.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment that was identified does not affect subsidy and was not classified as an error for subsidy purposes.

HOUSING BENEFITS SUBSIDY

Mid-week changes in Address

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had incorrectly treated claims where claimants had changed address part way through the week.

2 errors of this nature were identified in the 2018/19 initial testing of Non-HRA cases. This resulted in Cell 013 being overstated, and Cell 012 being understated, by £38.36.

Additional testing

Due to the errors reported in the prior and current years, the council undertook 100% testing to determine the impact of this issue.

The additional testing identified 1 further error which resulted in Cell 107 being overstated, and Cell 106 being understated, by £14.99.

Impact

As the misclassifications were identified as part of 100% testing of the population, the Council amended the claim form for these errors.

HOUSING BENEFITS SUBSIDY

Non-HRA Rent Rebates: Incorrect Rent Liability

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18, testing identified errors in the rental liability used in the assessment of claims.

No errors of this nature were identified in the 2018/19 initial sample of Non-HRA rent rebates.

Additional testing

Due to the errors identified in the previous year, the council were required to undertake 100% testing of all 95 cases in Cell 011, to determine whether this issue had continued in 2018/19.

The additional testing identified 1 error which resulted in benefit being overpaid by £1.70.

2 cases were also identified where benefit had been underpaid by a total of £795.72.

Impact

Although 100% of the population was tested, the Local Authority has not amended for this overpayment error in the 2018/19 claim. This is because the Council would have to reverse the manual adjustment of overpayment made to the 2018/19 claim, within the 2019/20 claim.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayments that were also identified do not affect subsidy and were not classified as errors for subsidy purposes.

HOUSING BENEFITS SUBSIDY

Rent Allowances: Incorrect rent increase applied for a Housing Association

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18, testing identified errors in the rental liability used in the assessment of claims, where the landlord was a Housing Association.

Initial sample testing of 2018/19 Rent Allowance claims, also found one error of this nature, where non-eligible costs detailed in the Housing Association rent update for 2018/19, were not input correctly. This resulted in Cell 102 being overstated by £57.50.

Additional testing

Additional testing was performed on 40 Rent Allowance cases in Cell 102.

The additional testing identified 1 case where benefit was overpaid by £33.60 as a result of non-eligible costs being input incorrectly. This error has been extrapolated across the population.

1 further case was identified which resulted in underpaid benefit of £0.50.

Impact

Based on our extrapolation of the overpayment error identified, we estimated that the Council had incorrectly recognised £3,637 (0.04% error rate on population of £9,093,261) in cells attracting full subsidy that should have been recognised in nil subsidy cells.

If DWP decide to adjust for the extrapolated error reported subsidy would be reduced by £3,637.

DWP does provide an allowance within the subsidy system to recover local authority errors. However, as the Council is above the threshold, it would not be able to recover this amount through this subsidy allowance.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment that was also identified does not affect subsidy and was not classified as an error for subsidy purposes.

HOUSING BENEFITS SUBSIDY

Rent Allowances: Earned Income

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had incorrectly assessed earned income elements, resulting in an underpayment of benefit.

No errors of this nature were identified in the 2018/19 initial testing of Rent Allowance cases.

Additional testing

Due to the errors reported in the previous year, and the fact that errors of this nature could result in overpayments, the Council were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

The additional testing identified 4 errors where benefit was underpaid by a total of £195.52, as a result of using incorrect earned income in the assessment.

Impact

As there is no eligibility to subsidy for benefit which has not been paid, the underpayments that have been identified do not affect subsidy.

However, as there continue to be errors in the assessment of earned income, 40+ testing will be required in 2019/20.

HOUSING BENEFITS SUBSIDY

Rent Allowances: Self-Employed Income

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had incorrectly assessed self-employed income, resulting in an underpayment of benefit.

No errors of this nature were identified in the 2018/19 initial testing of Rent Allowance cases.

Additional testing

Due to the errors reported in the previous year, and the fact that errors of this nature could result in overpayments, the Council were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

The additional testing identified 1 error where benefit was underpaid by a total of £0.27, as a result of using incorrect income in the assessment.

7 cases were identified where the incorrect income tax personal allowance was used in the calculation of self-employed earnings, but there was no impact on benefit entitlement as earnings fell below the allowance in each case.

2 errors were identified which resulted in benefit being overpaid by £19.86. These errors have been extrapolated across the population.

Impact

Based on our extrapolation of the two overpayment errors identified, we estimated that the Council had incorrectly recognised £91 (0.01% error rate on population of £914,261) in cells attracting full subsidy that should have been recognised in nil subsidy cells.

If DWP decide to adjust for the extrapolated error reported subsidy would be reduced by £91.

DWP does provide an allowance within the subsidy system to recover local authority errors. However, as the Council is above the threshold, it would not be able to recover this amount through this subsidy allowance.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment that was identified does not affect subsidy and was not classified as an error for subsidy purposes.

HOUSING BENEFITS SUBSIDY

Rent Allowances: Child Tax Credits

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had input child tax credits from the incorrect date, resulting in an overpayment of benefit.

No errors of this nature were identified in the 2918/19 initial testing of Rent Allowance cases.

Additional testing

Due to the errors reported in the previous year, the council were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

The additional testing identified 1 error where benefit was overpaid by a total of £12.61, as a result of using incorrect child tax credits in the assessment.

Impact

Based on our extrapolation of the overpayment error identified, we estimated that the Council had incorrectly recognised £294 (0.01% error rate on population of £2,943,260) in cells attracting full subsidy that should have been recognised in nil subsidy cells.

If DWP decide to adjust for the extrapolated error reported subsidy would be reduced by £294.

DWP does provide an allowance within the subsidy system to recover local authority errors. However, as the Council is above the threshold, it would not be able to recover this amount through this subsidy allowance.

HOUSING BENEFITS SUBSIDY

Rent Allowances: New Claim Start Dates

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had incorrectly applied start dates to new claims, this had no subsidy effect in the prior year.

No errors of this nature were identified in the 2018/19 initial testing of Rent Allowance cases.

Additional testing

Due to the errors reported in the previous year, and the fact that errors of this nature could result in overpayments, the Council were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

The additional testing identified 1 error where benefit was underpaid by a total of £61.29, as a result of entitlement commencing a week later than it should have.

Impact

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment that was identified does not affect subsidy.

However, as there continue to be errors in new claim start dates, 40+ testing will be required in 2019/20.

HOUSING BENEFITS SUBSIDY

Rent Allowances: Classification of Eligible overpayments

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had incorrectly classified overpayments as eligible, that should have been classified as Local Authority Error and Administrative Delay Overpayments.

No errors of this nature were identified in the 2018/19 initial testing of Rent Allowance cases.

Additional testing

Due to the errors reported in the previous year, the Council were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

14 cases were identified, where either whole or part of the overpayment had been incorrectly classified. Cell 114 is overstated, and Cell 113 is understated, by £170.69.

Impact

The Council amended the claim form for the 14 errors identified.

Based on our extrapolation of the overpayment misclassification errors identified, we estimated that the Council had incorrectly recognised £2,694 (0.9% error rate on population of £299,354) in cells attracting 40% subsidy that should have been recognised in nil subsidy cells.

We also estimated that the Council had incorrectly recognised £1,441 (0.9% error rate on a population of £160,160) in prior year overpayment cells attracting 40% subsidy that should have been recognised in nil subsidy cells.

HOUSING BENEFITS SUBSIDY

Non-HRA Rent Rebates: Classification of Eligible overpayments

Reporting matter

Adjusted

Unadjusted error

Errors

In 2017/18 it was identified that the Council had incorrectly classified overpayments as eligible, that should have been classified as Local Authority Error and Administrative Delay Overpayments.

No errors of this nature were identified in the 2018/19 initial testing of Rent Allowance cases.

Additional testing

Due to the errors reported in the previous year, the Council were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

No issues were identified.

Impact

No impact on subsidy claimed.

This can be removed from mandatory additional testing in 2019/20.

HOUSING BENEFITS SUBSIDY

Non-HRA Rent rebates: Child Tax Credit and Working Tax Credit

Reporting matter

Adjusted

Unadjusted error

Errors

Testing of our 2018/19 initial sample of 20 Non-HRA Rent rebate cases identified 1 case where the Local Authority had failed to manually action an ATLAS report and therefore applied incorrect values of Child and Working tax Credits for a number of periods.

This error resulted in benefit, overall, being underpaid by £12.56, but an overstatement in the overpayment cell 028.

Additional testing

Due to the errors identified, the Council were required to undertake 100% testing of all 13 Non-HRA cases with tax credits.

No further issues were identified.

Impact

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment that was identified does not affect subsidy.

As errors of this nature *could* lead to overpayments, 40+ testing will be required in 2019/20.

APPENDIX: RECOMMENDATIONS AND ACTION PLAN

2018/19 action plan

| Area / observation | Recommendation | Management response |
|--|--|---|
| Housing benefits subsidy | | |
| <p>Two claims were identified, as part of the initial testing of Non-HRA Rent rebates, where the Council had classified the claimants accommodation incorrectly as self-contained, when the claimant was actually placed in non self contained accommodation. As a result, expenditure in Cells 014 and 015 is misclassified and should be within Cells 012 and 013.</p> <p>There was no affect on the headline cell and incorrectly classifying property in this way could only lead to subsidy being underpaid. This issue was therefore not treated as an error for subsidy purposes.</p> | <p>The Council should review the property classifications in Cell 011, to avoid underpayments of subsidy.</p> | <p>From 1 April 2019 there was a change in the assessment officers who process Non-HRA claims, so a 100% testing was performed on any new Non-HRA claims for the majority of the year.</p> <p>As a result of this check, this error should not be present in 2019/20 claim form.</p> <p>The Senior Benefit Officer will also do a 10% check on these cases, prior the claim submission.</p> |
| <p>The reports provided to identify earned income and self-employed income sub-populations, may not be complete.</p> <p>The Council is only able to run the report as at an effective date. This does not capture any claims that had earned income or self employed income elements during the year, but were no longer receiving this type of income at the effective date.</p> | <p>The Council should discuss with the software provider if it is possible to identify all cases which have had earned income or self employed income elements during the year. This will enable testing on the full sub-population.</p> | <p>The Senior Benefits Officer is in the process of asking Capita if is possible for them to write a bespoke SQL for the council to extract this data, as the current report available is not satisfactory. This will be at a cost to the Council, but the SQL should be able to be used each year.</p> |
| <p>The detailed breakdown of all the cases in Cells 118 and 119, did not agree to the figures presented in the claim form.</p> <p>This was because recoveries had been made in the year and the net value was shown in the system report.</p> | <p>The Council should attempt to identify any instances where the population reports do not agree to the figure generated for the claim form.</p> <p>The Council should satisfy themselves that there is a appropriate reason for any such differences, if this issue can not be addressed within the system itself.</p> | <p>The Senior Benefits officer is in the process of speaking to Capita regarding these differences, and asking for their explanation on the matter.</p> |



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the review of grants claims and returns are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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