

## EXTERNAL AUDITOR REPORT: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

### 1 PURPOSE OF REPORT

- 1.1 To draw Members' attention to the Certification of Claims and Returns Annual Report 2016/17.

### 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 2016/17 was Ernst & Young.
- 2.2 The Ernst & Young report is appended and summarises the results of the work on Rochford District Council's 2016/17 housing benefit subsidy claim.

### 3 SUMMARY

- 3.1 The report outlines the results of the 2016/17 certification work and highlights any significant issues arising. Ernst & Young checked and certified the housing benefits subsidy claim which had a total value of £17.4m. A qualification letter was issued as the work identified some errors; however, these were corrected and the amendments only had a marginal effect on the amount of grant payable to the Council by DWP.
- 3.2 Ernst & Young made one recommendation which is set out below.

#### Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
<b>Housing benefits subsidy claim</b>	High		31 July 2018	Naomi Lucas – Section 151 Officer
Perform early extended testing in those areas where errors were identified in 2016-17, to ascertain the extent of similar errors arising in 2017-18.				

#### 4 RESOURCE IMPLICATIONS

- 4.1 A scale fee variation increase for the certification of the 2016/17 housing benefits subsidy claim has been agreed to reflect the additional work associated with extended testing of some areas, due to additional errors found this year compared to 2014/15 and 2015/16. Details are set out below.

#### 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.psaa.co.uk](http://www.psaa.co.uk)).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	11,783	8,520	8,184

#### 5 LEGAL IMPLICATIONS

- 5.1 Certification is required by the DWP to support the Council's housing benefit subsidy claim for 2016/17.

#### 6 EQUALITY AND DIVERSITY IMPLICATIONS

- 6.1 There are no direct equality and diversity implications arising from this report.

#### 7 RECOMMENDATION

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

That the Certification of Claims and Returns Annual Report 2016/17 be noted.



Naomi Lucas

Section 151 Officer

**Background Papers:-**

None.

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6 December 2017

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Dear Members

## **Certification of claims and returns annual report 2016-17 Rochford District Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Rochford District Council's 2016-17 Housing Benefit Subsidy claim.

### **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.

### **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 £17.4 million. We met the submission deadline. We issued a qualification letter and we include the details in section 1. Our work found errors which the Council corrected. The amendments had a marginal effect on the amount payable to the Council.

Fees for certification and other returns work are summarised in section 2. 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.psa.co.uk](http://www.psa.co.uk)).

The level of errors found this year have increased on both 2014/15 and 2015/16. In comparison with 2014/15, upon which PSAA based their 2016/17 certification fees, the Council has undertaken five extra lots of extended 100% testing on Non-HRA Rent Rebates and two lots of extended 40+ testing on Rent Allowances. We therefore propose to charge a scale fee variation increase for the certification of the 2016/17 housing benefits subsidy claim. Details are included in section 1 of the report.

We have made one recommendation this year as set out in section 4.

We welcome the opportunity to discuss the contents of this report with you at the 16 January 2018 Audit Committee.

Yours faithfully

Kevin Suter  
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Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£17,398,595
Amended/Not amended	Amended – subsidy reduced by £2,699 to £17,395,595.
Qualification letter	Yes
Fee – 2016-17	£11,783 subject to PSAA Ltd. Agreement.
Fee – 2015-16	£8,184
Recommendations from 2015-16	Findings in 2016-17
Perform early extended testing in those areas where errors were identified in 2015-16, to ascertain the extent of similar errors arising in 2016-17.	The Council implemented the recommendation from last year. However, we have found similar errors in all five areas in November 2017. As these could continue into to 2017/18, we are again recommending the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2017-18.  Further details of these findings are included 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 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 claims in previous years.

In 2016/17, the Council identified errors and carried out extended testing in several areas, for which we re-performed a sample of cases.

Extended and other testing identified errors for which the Council amended. The errors had a small net impact on the claim. We have also reported in our Qualification Letter, where the Council propose to make amendments to the 2017/18 claim, underpayments and uncertainties as well as the extrapolated value of other errors in a qualification letter.

In respect of our Qualification Letter, the DWP will decide whether to ask the Council to carry our further work to quantify errors or to claw back the benefit subsidy paid.

### Follow up of errors found from certifying previous housing benefit subsidy claims

The following errors were discovered by Council staff in undertaking initial and extended '40+' and '100%' testing from errors reported by the previous external auditors to the Council, BDO, in their 2013/14 and 2014/15 certification reports and by EY from our certification work in 2015/16.



Description of Cell	Nature of error
Cell 011: Non-HRA rent rebates – total expenditure	<p>The Council was unable to apply a fix to the subsidy software provided by CAPITA before submitting the 2016/17 claim in April 2017. Initial testing identified two errors where benefit had been recorded incorrectly in cells within the claim form.</p> <p>The Council applied the fix and processed a number of amendments to the claim. The Council tested a further 113 cases to ensure that it had adhered to benefit limits.</p> <p>The Council amended for the errors found through initial testing, although neither impacted upon the subsidy claimed.</p> <p>No further errors were found from the 100% review of manual adjustments by Council officers in respect of Non-HRA rent rebates.</p>
Cell 011: Non-HRA rent rebates – total expenditure	<p>Seven errors of miss-classification between technical. Local authority and claimant error overpayments were found by Council officers in checking 100% of all 52 Non-HRA rent rebates overpayments. Officers processed the amendments within the 2016/17 Housing Benefits claim.</p>
Cell 011: Non-HRA rent allowances – total expenditure	<p>Council officers corrected three misclassification of housing benefits and reported six underpayments of housing benefits from the 100% review of manual adjustments for 59 housing benefit payments awarded on two homes.</p> <p>Officers processed the misclassification amendments within the 2016/17 claim and we reported the underpayment of benefits to the DWP in our Qualification Letter.</p> <p>We also reported the deferral by the Council of the overpayment amendment to the 2017/18 claim in the Qualification Letter.</p>
Cell 094: rent allowance – total expenditure	<p>Initial testing of 20 Rent Allowance cases did not identify any errors as regards start dates to new claims. However, testing of a further sample of 40 further cases identified two underpayments of benefit and two overpayments of benefit.</p> <p>We included an extrapolation table within our Qualification Letter for the overpayments found and reported the two underpayments of benefit identified to the DWP.</p>
Cell 094: rent allowance – total expenditure	<p>Initial testing of 20 Rent Allowance cases did not identify any errors as regards start dates to child tax credits. However, testing of a further sample of 40 further cases identified one overpayment and one underpayment of benefit on the same case.</p> <p>We included an extrapolation table within our Qualification Letter for the overpayment found and reported the underpayment of benefit identified to the DWP.</p>

We will continue to test manual Non-HRA Rent Renate adjustments within the 2017/18 grant claim that errors are still occurring on these benefit types. In addition we are recommending that the Council undertakes early extended testing covering the Rent Allowance expenditure to test start dates for new claims and child tax credits.

**New Errors arising from the certification of the 2016/17 housing benefit subsidy claim**

Description of Cell	Nature of error
Cell 011: Non-HRA rent rebates – total expenditure	<p>Initial testing of 20 Non-HRA Rent Rebate cases identified two errors whereby a claimant occupied two rooms but the Council had only applied ineligible costs only once.</p> <p>Further testing of 100% of cases identified no errors from the 92 cases tested.</p> <p>We reported the deferral by the Council of the overpayment amendments to the 2017/18 claim in the Qualification Letter.</p>
Cell 011: Non-HRA rent rebates – total expenditure	<p>Initial testing of 20 Non-HRA Rent Rebate cases identified three errors relating to a specific guest house offering bed and breakfast accommodation. The errors involved overpayments arising from miscommunication between the housing department and benefits officers following the receipt of information from the guest house as follows:</p> <ul style="list-style-type: none"> <li>• The payment of an extra night when the claimant did not stay at the hotel;</li> <li>• The payment of incorrect rent amount covering 6 days when it was actually a weekly amount; and</li> <li>• The inclusion of VAT weekly housing benefit.</li> </ul> <p>We reviewed all five cases accommodated by the guest house and found no further errors.</p> <p>We reported the deferral by the Council of the overpayment amendments to the 2017/18 claim in the Qualification Letter.</p>
Cell 011: Non-HRA rent rebates – total expenditure	<p>Initial testing of 20 Non-HRA Rent Rebate cases identified one system error leading to an overpayment arising from the processing of a mid-week overpayment. This meant that the sum was not split correctly between two cells on the claim form.</p> <p>The Council found three further errors from a 100% review of 193 similar mid-week overpayments.</p> <p>The Council amended the 2016/17 claim form for the errors found.</p>
Cell 094: rent allowance – total expenditure	<p>Initial testing of 20 Rent Allowance cases identified one error whereby the Council had applied the incorrect rent amount relating to a Housing Association property.</p> <p>Testing of a further sample of 40 further cases identified no further errors.</p> <p>We included an extrapolation table within our Qualification Letter for the overpayment found in the initial testing.</p>
Cell 094: rent allowance – total expenditure	<p>Initial testing of 20 Rent Allowance cases identified one error whereby the Council had miss-classified an overpayment between an error arising from the local authority and an error arising from the claimant which attract different levels of subsidy.</p>

Description of Cell	Nature of error
Cell 094: rent allowance – total expenditure	Testing of a further sample of 40 further cases identified five further misclassifications of overpayments.  We included an extrapolation table within our Qualification Letter for the errors found.
Cell 225: Modified Schemes – Rent Allowance	Initial testing of 20 Rent Allowance cases identified one error whereby the Council had omitted the family premium from the calculation of benefit.  As omitting an applicable amount will always lead to underpayment the Council did not undertake any additional testing,  We reported the underpayment of benefit within the Qualification Letter.  No errors were found

For the 2017/18 claim we are recommending that the Council undertake early extended testing on those areas where the Council's extended testing revealed further errors:

- Non-HRA Rent Rebates overpayments which arise from the processing of a mid-week overpayment; and
- Rent Allowance misclassification between eligible and local authority error.

We are viewing the remaining errors as isolated incidents given that extended testing did not reveal any further errors.

## 2. 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](http://www.psa.co.uk)).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	11,783	8,520	8,184

The indicative fee for 2016/17 of £8,520 is based on the fee of £11,360 charged for the work undertaken by BDO in 2014/15. The sum of £8,520 reflects the 25% reduction arising from the outcome of the Audit Commission's tendering exercise in March 2014.

Internal Audit complete the initial sample testing of relevant cases as well as housing benefits staff completing extended 40+ and 100% testing. The fee includes auditor time for the re-performance of the Council's initial and extended testing, planning, supervision and review and annual reporting to the DWP and the Council.

For 2016/17, we propose to charge a scale fee variation increase of £3,263 for the re-performance of six new Non-HRA Rent Rebates and Rent Allowance errors found during the certification of the 2016/17 claim.

We have discussed and agreed our proposed final fee of £11,783 with the Section 151 Officer. The scale fee variation increase of £3,263 is subject to agreement by Public Sector Auditor Appointments Ltd.

### 3. 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 is £8,184. 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/>

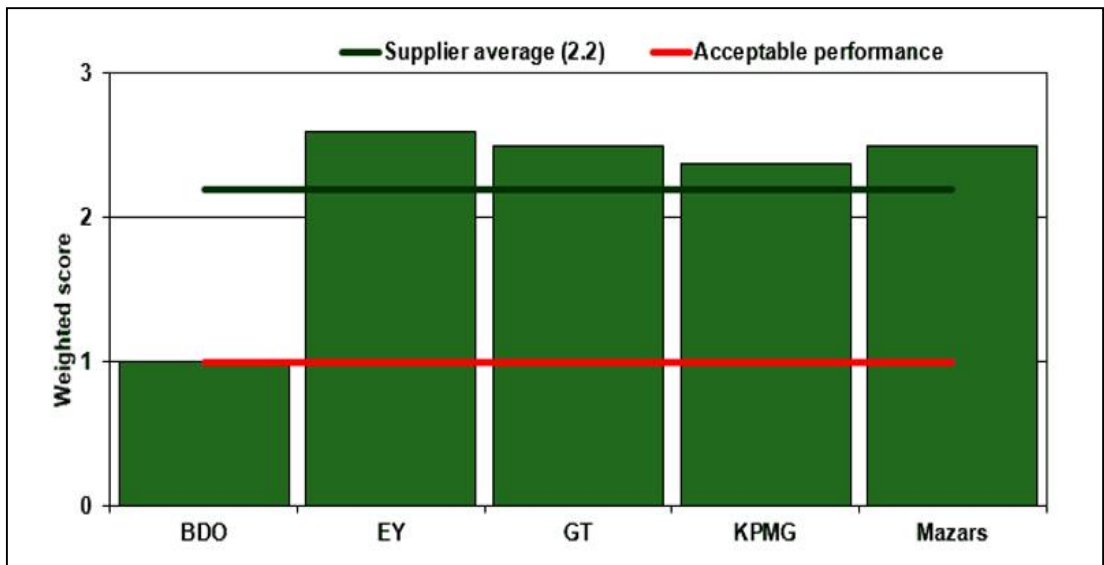
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Section 151 Officer before seeking any such variation.

#### 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 have provided a quotation for this work as part of the joint submission with Basildon and Brentwood Councils.

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 also expect to be 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.

## 4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
<b>Housing benefits subsidy claim</b>	High		31 July 2018	Naomi Lucas – Section 151 Officer
Perform early extended testing in those areas where errors were identified in 2016-17, to ascertain the extent of similar errors arising in 2017-18.				

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