

Certification of claims and returns annual report 2015-16

Brentwood Borough Council

28 February 2017

Ernst & Young LLP



EY

Building a better
working world

The Members of the Audit & Scrutiny Committee
Brentwood Borough Council
Town Hall
Ingrave road
Brentwood
Essex
CM15 8AY

28 February 2017
Ref: BBC/Grant report 2016/17

Direct line: 07974 006715
Email: Dhanson@uk.ey.com

Dear Members

Certification of claims and returns annual report 2015-16 Brentwood Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Brentwood Borough Council's 2015-16 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 Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, 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 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £15,647, 095. The Authority implemented a new housing benefit system in February 2016. This resulted in a number of issues in relation to both the production and audit of the claim. As a result of these issues, the submission deadline of the end of November 2016 was not met; with the claim being certified and the qualification letter issued on 1 February 2017. Details of the qualification matters and other issues encountered in the audit of the claim are included in Section 1 of this report.

Our certification work found errors which the Council corrected. The amendments from the amended claim submitted by the Authority, reduced subsidy due to the Council by £43,429.

Fees for certification and other returns work are summarised in Section 2. The housing benefits subsidy claim fees for 2015-16 were published by PSAA on its website (www.psaa.co.uk). As a result of the



additional audit work required to complete the audit of the housing benefits subsidy claim in 2015/16 we are proposing an additional fee, as set out in Section 2.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Scrutiny Committee on 13 March 2017.

Yours faithfully

Debbie Hanson
Executive Director
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim	1
2. 2015-16 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	£15,647,095
Amended/Not amended	Amended – subsidy reduced by £43,429
Qualification letter	Yes
Fee – 2015-16	To be agreed – see Section 2.
Fee – 2014-15	£38,087

Recommendations from 2014-15	Findings in 2015-16
<p>Two recommendations made focusing on:</p> <ul style="list-style-type: none"> • training for housing benefit assessors; and • the provision of resources to support certification testing to assist in reducing certification fees. 	<p>As a result of our work in 2015-16, we have concluded that both recommendations made in 2014-15 remain valid and have therefore been retained in this report. We have also included one additional recommendation in relation to issues identified in 2015-16. Further details of these findings are included in section 3.</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 years claims. We found errors and carried out extended testing in several areas. Our extended and other testing identified errors which the Council amended. The overall impact on the claim was to reduce subsidy claimed by £43,429

We have reported underpayments, uncertainties and 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.

The main issues we reported are set out below:

New benefits system and data conversion issues

During 2015/16, the Authority changed housing benefit systems from the Northgate system to the Civica system. In addition, the housing benefit service was transferred to Basildon Council as part of a new shared service arrangement.

The new Civica system went live on 1 February 2016 and data was transferred over from the Northgate system at this date. This change involved the transfer and conversion of data from the old system to the new. A number of issues arose related to this transfer. In particular there were differences between the closing subsidy figures in the Northgate system at week 44 and the equivalent opening figures in Civica at week 44. To address this issue and ensure subsidy was not over-claimed, the Authority compiled its final subsidy claim using a combination of data from both systems, with adjustments to specific cells. As part of our audit we had to undertake additional work to test the data conversion and method of claim compilation to confirm that the claim had been compiled on an appropriate basis.

As a result of the data conversion issues, the Authority was also unable to produce a single audit trail for each cell on the subsidy claim. Instead, the entries on the claim supported by

separate audit trails from the Northgate system and Civica systems. Our audit testing therefore had to select samples from both Northgate and Civica and test the entries and calculations relating to each individual claim on both the Northgate and Civica systems.

Replacement claim and final amendments to the claim

Following submission of its original subsidy claim to the DWP on 3 May 2016, the Authority was concerned that the expenditure which had been included in the main expenditure cells of the Subsidy Claim was significantly understated. As a result, the Authority engaged the software supplier, Civica, to look at the issue in more detail. As a result of the work undertaken by the Authority and Civica, an updated claim was produced. The revised claim resulted in an increase in the amount of subsidy due to the Council of £871,774.

As a result of the audit, further amendments were made to the claim which impacted on total subsidy claimed, reducing this by £43,429 to a final figure of £15,647,095. As part of the process of finalisation of the claim, a number of further amendments were made by the Authority in relation to relatively minor errors identified during the audit. As a result, a number of different versions of the claim were provided for final audit review. Additional audit work had to be undertaken to confirm the accuracy of these changes to the claim. Our checking of these changes identified a number of errors which management corrected. The number changes made to the claim and the resulting versions of the claim which were provided for final audit review resulted in additional audit work and cost.

40+ and extended testing

Extended 40+ testing was undertaken in a number of areas, as set out below. The nature of errors is in line with those reported in previous year's qualification letters:

- **HRA rent rebates:** The testing of an initial random sample of 20 HRA rent rebate case identified one case where the Authority had overpaid benefit as a result of ineligible service charges being included in rent liability. The testing of an additional sample of 40 cases identified no further errors. The error identified was extrapolated across the population to give an extrapolated error of £2,290.
- **Rent rebate overpayments:** Our initial testing did not identify any errors. However, given the level of previously reported errors with overpayment classification, an additional random sample of 40 cases was selected for review of overpayment classification. The additional testing found three errors where the overpayment was classified as eligible error when in fact it was a local authority error. Local authority error overpayments attract subsidy at a lower level than eligible error overpayments. This classification error was therefore extrapolated across the population and resulted in an extrapolated error of £1,254.
- **Rent allowances:** The testing of an initial random sample of 20 cases identified one case where the Authority had underpaid benefit as a result of manual payment and manual adjustment being raised incorrectly. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not, therefore, classified as errors for subsidy purposes. However, because errors in manual payment and manual adjustment can also result in an overpayment, an additional random sample of 40 cases was tested. No further errors were identified from this testing.
- **Rent allowances income assessment:** Testing of the initial random sample of 20 cases did not identify any errors in relation to income. However, given the level of previously reported errors in this area an additional random sample of 40 cases were selected to check correct income figure had been applied. This additional testing identified four errors: one case where the Authority had underpaid benefit as a result of incorrect income amount in the system; and three cases where the Authority had overpaid benefit as a result of miscalculating the claimant's weekly income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment

identified does not affect subsidy and was not, therefore, classified as an error for subsidy purposes. The overpayment errors identified were extrapolated across the population to give an extrapolated error of £7,356.

- **Rent allowance overpayments:** Initial testing did not identify any errors. However, given the level of previously reported errors an additional random sample of 40 cases was selected for review to check overpayment classification. The additional testing found seven errors where the overpayment was classified as eligible error when in fact it was a local authority error. Local authority error overpayments attract subsidy at a lower level than eligible error overpayments. This classification error was therefore extrapolated across the population and resulted in an extrapolated error of £30,434.

2. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	To be confirmed*	18,070	38,087**

* As noted in Section one of this report various issues arose during the course of our certification work which required us to undertake additional work in a number of areas. This additional work falls outside the scope of the indicative fee set by the PSAA and we will therefore agree an additional fee for this with Council officers. Once agreed with the Council, this additional fee will need to be approved by the PSAA. We will inform members of the final fee in due course.

** The actual fee for 2014-15 was higher than the scale fee of £30,680. This was mainly because of the fact that in prior years, the Council undertook all initial and 40+ testing to high standard and minimal errors were identified. The increase in fee reflects the fact that the Council was not able to complete all of the initial testing and none of the 40+ testing required due to capacity issues. We therefore undertook this work. In addition, we identified some errors in the testing which was undertaken by the Council which required us to increase our level of re-performance.

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 2016-17 is £28,565. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. 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.psa.co.uk/audit-and-certification-fees/201617-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 Finance Director before seeking any such variation.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

4. Summary of recommendations

This section highlights the recommendation from our work and the action agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Training for housing benefit assessors should continue and in particular cover overpayment calculation	Medium			
The Council should consider how it can provide resources to undertake detailed benefits testing by its own staff to reduce the impact of audit fees	Medium			
The Council should work with the new shared benefit service provider to clarify responsibilities for agreement of audit amendments and when additional work will be undertaken, or not, in response to errors identified in the audit of the claim.	Medium			

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](https://www.ey.com)