

Certification of claims and returns annual report 2016-17

Chichester District Council

December 2017

Ernst & Young LLP



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The Members of the Corporate Governance and Audit Committee
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Dear Members

Certification of claims and returns annual report 2016-17 Chichester District Council

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

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

We checked and certified the housing benefits subsidy claim with a total value of £35,649,771. We met the submission deadline. Section 1 of this report outlines the results of our 2016-17 certification work and highlights the more significant issues reported in our qualification letter.

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.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 25 January 2018 Corporate Governance and Audit Committee.



Yours faithfully

Paul King
Associate Partner
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£35,651,679
Amended	Amended – subsidy reduced by £1,908 with final value of certified claim of £35,649,771
Qualification letter	Yes

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 that could cause overpayments of benefit or impact on the subsidy claimed from the DWP. Our certification instructions do not permit us to apply the concept of materiality to this work. 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 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. These are the main issues we identified and reported:

- From an initial sample of twenty Rent Allowance cases:
 - we identified three cases where expenditure was misclassified between eligible and local authority error overpayments by a value of £2,224. There was no impact on benefit paid to the claimant but this type of error would result in the incorrect subsidy being claimed from the DWP. Extended testing was undertaken to eligible overpayments and no further issues were identified. We reported these findings and the extrapolated value of these errors, £104,854, to the DWP in our qualification letter.

The potential impact of this matter is significant to the Council. Should the DWP judge that subsidy has been overpaid and decide to adjust the certified claim for the value of the extrapolated error, the impacts would be:

- § a decrease in subsidy of £41,942 as a result of reclassifying the overpayments from eligible to local authority; and
- § a further decrease in subsidy of £149,297. The DWP award full subsidy for local authority and administrative delay overpayments if the total does not exceed a threshold. The impact of this adjustment would increase the total above the threshold resulting in the stated loss in subsidy.

The Council has been in ongoing dialogue with the DWP on this matter and asked us to include the following in our qualification letter:

"Whilst the Authority agree that the extrapolation of error for rent allowance eligible overpayments is correct we do not feel that it is representative of the error in the cell population. One of the overpayment values attributable to the extrapolation was significantly higher than the other two. On the grounds that

the sample size is small, one overpayment value was disproportionately high and the fact that a large proportion of the cell value relates to overpayments created by the use of RTI, which we are confident are allocated in terms of subsidy correctly, leads us to conclude that the extrapolation, if applied by the Department, is not reflective of the error within the cell."

- we identified one case where earned income had been incorrectly calculated causing an overpayment of benefit with total value of £5. Extended testing was performed to the sub population of cases which have earned income. The testing identified one further overpayment of benefit with total value of £228 and an underpayment of benefit with total value of £1. For these cases, amendments have been made to individual claims in 2017-18, ensuring that the benefit paid to claimants has been corrected. We reported these findings and the extrapolated value of these errors, £7,337, to the DWP in our qualification letter;
- we identified one case where eligible rent had been incorrectly calculated causing an underpayment of benefit with total value of £4. Extended testing was performed and no further issues were identified. For this case, amendments have been made to the individual claim in 2017-18, ensuring that the benefit paid to the claimant has been corrected. We reported these findings to the DWP as an observation in our qualification letter; and
- we identified one cases, with total value £4,800, where the claim form could not be traced and the Council was unable to produce evidence that claim form was received. This was due to the original claim form, which pre-dated 2006, being destroyed in a fire at the Council's storage archive. As in prior years we reported this matter to the DWP in our qualification letter.
- From an initial sample of twenty Non HRA (Housing Revenue Account) Rent Rebate cases:
 - we identified two cases where expenditure was misclassified between technical overpayments and either full subsidy or local authority error overpayments by a value of £19. There was no impact on benefit paid to the claimant but this type of error would result in the incorrect subsidy being claimed from the DWP. Extended testing was undertaken to technical overpayments. A further nine errors were detected with total value £1,298. We reported these findings and the extrapolated value of these errors, £3,229, to the DWP in our qualification letter;
 - we identified two cases where expenditure was misclassified between eligible and technical overpayments by a value of £176. There was no impact on benefit paid to the claimant but this type of error would result in the incorrect subsidy being claimed from the DWP. As there was a small population of eligible overpayments that could be impacted by this type of error, testing was extended to cover all of them. A further twelve errors were detected. To correct this error, an amendment of £4,444 was agreed to the claim form which reduced the total subsidy payable to the Council by £1,778;
 - we identified one case where earned income had been incorrectly calculated causing an underpayment of benefit with total value of £1. Extended testing was performed to the sub population of cases which have earned income. The testing identified one further underpayments of benefit with total value of £1. For the underpayments, amendments have been made to individual claims in 2017-18, ensuring that the benefit paid to claimants has been corrected. We reported these findings to the DWP as an observation in our qualification letter;

- we identified nine cases where technical overpayment had been understated by a total value £3,519. The error arose through the system inappropriately netting down technical overpayment when a claimant moved from a Non HRA Rent Rebates property into a Rent Allowances property. This error will never have an impact on benefit paid to the claimant or subsidy recovered from the DWP. As such, we reported the errors detected to the DWP as an observation in our qualification letter only; and
- we identified three cases where expenditure was inappropriately classified as a backdate. The total value was £755. In these cases, there was no impact on benefit paid to the claimant or impact on subsidy claimed from the DWP. However, this type of error could have resulted in overpayment of benefit and incorrect subsidy being claimed. As there was a small population of other cases that could be impacted by this type of error, testing was extended to cover all of them. A further fifteen errors were detected, none of which impacted the benefit paid to the claimant. To correct this error, an amendment of £4,620 was agreed to the claim form which had no impact on the total subsidy payable to the Council.

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.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £	Actual fee £
Housing benefits subsidy claim	14,031*	£9,913	7.847	13,217

*The reason for the variance in actual fee from indicative fee in 2016-17 is additional work that we had to perform as a result of the errors reported in Section 1. This increase in fee has been agreed with management but under the terms of our contract is still subject to agreement with PSAA.

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 £7.847. 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.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

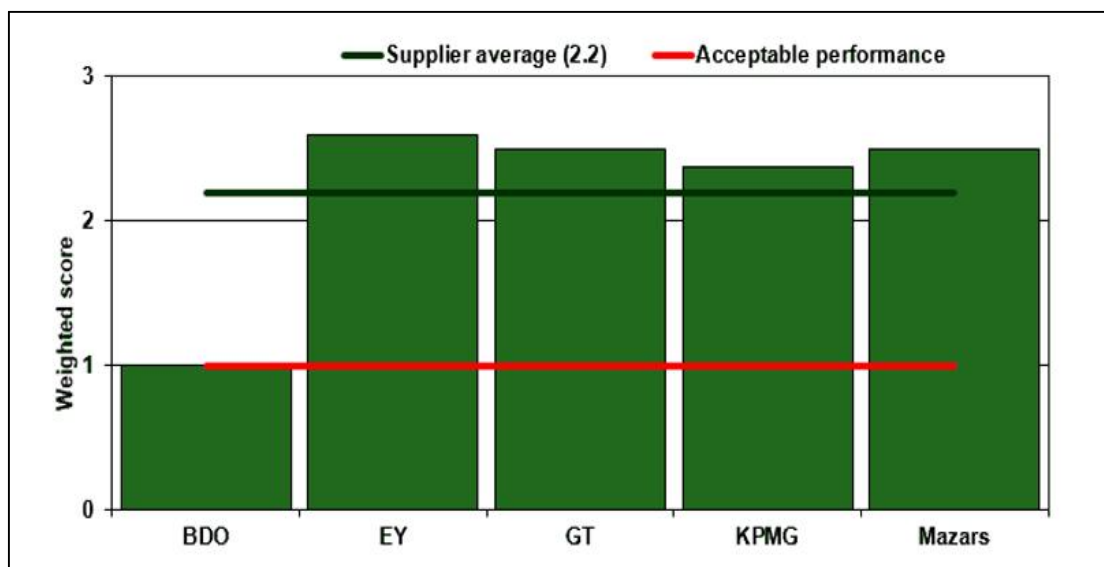
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance & Governance Services before seeking any such variation.

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

4. Summary of recommendations

We are satisfied that appropriate action has been taken on all recommendations raised in our 2015/16 certification report. No related findings have been made this year.

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
The level of error related to overpayment classification was high. We would recommend the Council conduct refresher training with assessors and conduct quality checks in this area.	Medium	The service is in the process of being redesigned, this includes the introduction of a business support team that will focus on performance and subsidy monitoring. One of the aims of this new team is to reduce error across the service. When the new team is in place overpayment classification will be an area of focus in terms of performance monitoring, feedback, mentoring and training.	The new structure will be in place by the 1st April 2018.	Marlene Rogers

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