

Certification of claims and returns annual report 2015/16

Merton Council

February 2017

Ernst & Young LLP



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working world

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Dear Members

Certification of claims and returns annual report 2015/16

We are pleased to report on our certification work. This report summarises the results of our work on Merton 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 the 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 issues identified.

We checked and certified the housing benefits subsidy claim with a total value of approximately £92 million. We met the submission deadline for this work. We issued a qualification letter and details of this are included in section 1. In addition, our certification work found errors which the Council corrected in the final version of the subsidy claim. These amendments resulted in a small amount of expenditure being reclassified but had no net impact on the grant due. The Council did not breach its error threshold. This has resulted in the Department for Work and Pensions accepting the Council's certified claim.

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 in March 2015 and are now available on their website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at the meeting of the Standards and General Purposes Committee on 9 March 2017.

Yours faithfully

Paul King
Executive Director
For and on behalf of Ernst & Young LLP
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£92,035,790
Amended/Not amended	Amended – no net impact on subsidy
Qualification letter	Yes
Fee – 2015/16	£41,242
Fee – 2014/15	£37,760

Recommendations from 2014/15

We did not raise specific recommendations in our 2014/15 Annual Certification Report. This was because the level of error identified in 2014/15 was reduced compared to previous years.

However, in common with prior years errors were still identified regarding the calculation of income (both tax credits and earned income), and the classification of overpayments. There were also system errors identified during the course of our work which required manual amendments to the claim form.

Findings in 2015/16

Based on the results of our work improvements continue to be made to the control environment for housing benefit at the Council and 2015/16 was the first year in some years where the local authority error threshold was not breached by the Council. This has resulted in the Department for Work and Pensions accepting the Council's certified claim. The improvement in the control environment, coupled with better programming and management of extended testing undertaken by the Council and reviewed and re-performed by us, allowed us to certify the amended claim form well in advance of the required deadline. This is also an improvement compared to previous years.

Although progress continues to be made there remains clear scope for further improvement. The 2015/16 return remained subject to both amendment and qualification, and there remains scope to improve assessment of benefit entitlement, particularly in relation to the assessment of claimant income. There also remains some scope to improve the initial quality of the extended testing undertaken by the Council.

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 DWP require appropriately qualified auditors to certify housing benefit subsidy claims, and determine the methodology auditors follow when certifying them.

The certification guidance stipulates the level of initial testing auditors are required to perform and 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 to determine if errors detected in the prior year's claim have reoccurred.

We then either report underpayments, uncertainties and the extrapolated value of other errors in a qualification letter or, if appropriate, agree an amendment to the claim with the Council. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid.

We have highlighted the following issues during the course of our work:

Rent Rebates

- ▶ From an initial sample of Rent Rebates cases we identified three errors as a result of incorrect calculation of earned income. The impact was:
 - ▶ One error in the assessment of the claimant's earned income leading to overpayment of benefit with a total value of approximately £69.
 - ▶ One case leading to a misclassification of expenditure leading and an overstatement of subsidy of approximately £55.
 - ▶ One case where the start date for benefit had been incorrectly assessed.

40+ or extended testing was undertaken in relation to both errors identified. The 40+ testing identified:

- ▶ A further six cases where employed income had been incorrectly calculated, with two of the six cases resulting in an overpayment of benefit. For these two cases the total value of the overpayment was approximately £91.
- ▶ A further seven cases where benefit expenditure on short-term leased or self-contained licenced accommodation where the Local Authority is the landlord had been incorrectly split between cells 14 and 15. One of these cases one led to an overpayment of subsidy, with cell 14 being overstated by approximately £104.
- ▶ Two further cases where the start date of benefit had been incorrectly assessed. In both cases this led to an understatement of benefit.

We extrapolated our findings which indicated that subsidy had been overstated by approximately £1,000. No amendments were made to the claim in respect of the extrapolated error.

Rent Allowances

Our initial sample of Rent Allowance cases also identified one error where self-employed income had been incorrectly calculated based on the information provided by the claimant.

40+ or extended testing was undertaken in relation to the error identified. This identified a further 15 cases where self-employed income had been incorrectly calculated. In four cases this led to an overpayment of benefit, with a total value of £463.82.

We extrapolated our findings which indicated that subsidy had been overstated by approximately £20,400. No amendments were made to the claim in respect of the extrapolated error.

We also reported a small balancing adjustment of approximately £5,900 made by the Council to its software supplier's reconciliation granted to benefit paid.

Due to the complex nature of the claim a certain number of errors are inevitable. The issues above have been reported in the qualification letter where applicable and have been discussed with officers. The Council is aware of the need to keep error rates as low as possible, particularly in relation to the assessment of claimant income in the determination of benefit entitlement. Given the further improvement in the control environment we have concluded that, formal recommendations on the above issues are not required in this report.

2. 2015-16 certification fees

PSAA determine a scale fee each year for the audit of claims and returns. For 2015/16, these scale fees were published by PSAA in April 2015 and are now available on their website (www.psa.co.uk).

Claim or return	2014-15	2015-16	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	37,760	41,242	41,242

PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent from 2015/16 onwards, to reflect savings from the closure of the Audit Commission. The 2015/16 fee is based on the fee for 2013/14 less 25 per cent. The indicative fee for 2016/17 (see section 3) is based on 2014/15 less 25 per cent.

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 £28,320. 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.psaa.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 would discuss the matter with the Director of Finance 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.

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