

# **Certification of claims and returns annual report 2013-14**

**Mid Sussex District Council**

**February 2015**

Ernst & Young LLP



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working world**



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Dear Members

## **Certification of claims and returns annual report 2013-14 Mid Sussex District Council**

We are pleased to report on our certification work. This report summarises the results of our work on Mid Sussex District Council's 2013-14 claim as at xx/02/15. Work continues to finalise the claim; this will be completed by 23/03/15

### **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.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and the submission deadlines.

Certification work is not an audit. It involves executing prescribed tests designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2013-14, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.



### **Statement of responsibilities**

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. As appointed auditor we take no responsibility to any third party.

### **Summary**

Section 1 of this report outlines the results of our initial 2013-14 certification work and highlights the significant issues identified at this time.

We checked and certified one claim with a total value of £33,203,739. We were unable to certify the claim by the submission deadline of 30 November 2014 due to the volume and complexity of errors identified in the claim and in the testing of individual claims. We certified the claim on 19 December 2014 and issued a qualification letter for the claim. Details of the qualification matters at that time are included in section 2. Our certification work found a number of errors in the claim which had an impact on the subsidy paid. Since 19 December 2014 significant additional work has been carried out by the Authority (agreed by the DWP) the checking of which will be completed by 23 March 2015. We have already agreed, in principle that a re-extrapolation of the impact of errors is appropriate.

Last year we made one recommendation. As an improvement plan could not be developed until early 2014 when the 2013-14 subsidy years was almost complete, the impact of this plan cannot be seen in the 2013-14 claim. We would expect that any improvements resulting from this plan would be seen in the 2014-15 subsidy claim. Details are included in section 1. We have made further recommendations this year which are set out in section 3.

Fees for certification work are summarised in section 2. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed. This includes the certification work on Business Rates (the NNDR3 grant claim) as this was withdrawn for 2013-14 and is no longer within the Audit Commission's grant regime. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent. This is to reflect the removal of council tax benefit from the scheme.

We welcome the opportunity to discuss the contents of this report with you at the 17 March Audit Committee.

Yours faithfully



Paul King  
Director  
Ernst & Young LLP  
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## 1. Summary of 2013-14 certification work

We certified 1 claim in 2013-14. Our main findings are shown below.

### Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£33,203,739
Limited or full review	Full
Amended	Not amended – see details below
Qualification letter	Yes
Fee – 2013-14	£23,810 <sup>1</sup>
Fee – 2012-13	£22,647

  

Recommendations from 2012-12:	Findings in 2013-14
The Authority should review the findings from the Housing and Council Tax Subsidy Benefit qualification letter and consider if training is required to reduce the occurrence of errors.	The CenSus team who process the benefits for the three CenSus authorities prepared a quality plan in response to the weaknesses identified in the 2012/13 claim. Due to the timing of the plan, developed in early 2014 when the 2013-14 subsidy year was almost complete, the impact of this plan cannot be seen in the 2013-14 claim. We would expect that any improvements resulting from this plan would be seen in the 2014-15 subsidy claim.

Councils run the Government's housing benefits scheme for tenants. Councils responsible for the scheme 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. We found errors and carried out eight sets of extended testing covering non housing revenue account (HRA) rent rebates and modified schemes.

The extended testing identified a number of cases where similar errors had occurred. We extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. No amendments were made to the claim. This was because given the nature of the populations tested it was unlikely that even significant additional work would result in amendments to the claim that would allow us to conclude it was fairly stated. We reported the extrapolated value of these errors to the DWP 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 DWP has responded to our letter and has asked the Council to carry out further work in a number of areas. We will report to the DWP on this work by the end of March 2015.

A summary of the key issues found is shown below:

<sup>1</sup> The fee shown is the fee to certify the claim. At the time of writing proposed variation to the indicative 2013/14 fee for the housing benefits subsidy claim is being considered by the Audit Commission. We have also received a letter from the Department for Work and Pensions requesting further work. There will be an additional fee for this work once it has been completed.

➤ *Local Authority Certification*

The claim form certificate has been signed by the Council confirming that the administrative systems, procedures and key controls for awarding benefits operate effectively. The errors identified this year are consistent with our findings in the previous year. However, as the improvement plan developed by CenSus could not be implemented until early 2014 when the 2013-14 subsidy year was almost complete, the impact of this plan could not be seen in the 2013-14 claim. We would expect that any improvements resulting from this plan would be seen in the 2014-15 subsidy claim.

➤ *System parameter uprating*

Review of the uprating of the system parameters in Academy identified that the incapacity benefit parameter had not been correctly uprated. By using the percentage figure provided in the annual DWP uprating circular, year on year, incorrect determinations has occurred. The impact of this error could not be determined without further investigation by the Council. The Benefits Team have since been able to undertake work to agree these claims and the DWP have asked us to review this work and evaluate the impact of these errors.

➤ *Uncashed cheques*

Testing of uncashed cheques identified an uncashed cheque which had been incorrectly treated resulting in an overstatement.

➤ *Overpayments*

We identified misclassification errors in overpayments for both non-HRA rent rebate and rent allowance cases. Additional testing was undertaken to enable us to extrapolate the results of the errors. In total we found 34 misclassification errors resulting in overpayment of subsidy of £33,765.

➤ *Incorrect application of the local housing allowance rate*

Our testing identified errors in the application of the local housing allowance for non-HRA rent rebate cases. Additional testing was undertaken to enable us to extrapolate the results of the errors. In total we found 6 errors resulting in overpayment of subsidy of £357.

➤ *Earned and self-employed income*

Testing identified errors in the calculation of income used in claimants' benefit calculations in both non-HRA rent rebates and rent allowance cases. Additional testing was undertaken to enable us to extrapolate the results of the errors. In total we found 54 such errors resulting in overpayment of subsidy of £193,859. A request by CenSus for us to review further work on the extrapolation of the impact of these errors has now been approved by the DWP. We have tested and agreed CenSus' methodology for calculating the precise number of employed and self-employed cases in the population of the subsidy cells affected; a review of the authority's assessment of the overpayment of subsidy is now underway.

➤ *Extended payments*

Our testing identified that benefit had been overpaid as extended payments had been awarded in error. Additional testing was undertaken to enable us to extrapolate the results of the errors. In total we found 3 such errors resulting in overpayment of subsidy of £5,378.

➤ *Modified schemes*

Testing of modified scheme cases identified one case where the incorrect state and occupational pensions had been used in the calculation of benefit and another case where the incorrect statutory disregard had been used. Although, there was no impact on subsidy as a result of this error additional testing was undertaken on the remaining population. In 2012/13 we found a number of errors with modified schemes. As part of

their quality assurance programme subsequently made a number of corrections to all modified scheme cases for war pension errors. As a result, there are now multiple revisions going back a number of years and neither we nor the Benefits Team were able to agree the cases to the claims. As a result, we could not evaluate the impact of these errors. The Benefits Team have since been able to undertake work to agree these claims and the DWP have asked us to review this work and evaluate the impact of these errors.

The net impact on the claim for errors identified and reported was £233,582.

In section 4 we have made a number of recommendations in the following areas to address the issues identified above:

- Review the CenSus Quality Plan and monitor and report progress regularly.
- Increase quality assurance checks and implement training in areas high where errors have been identified.
- Introduce robust, evidenced checks on the preparation of the subsidy claim.



## 2. 2013-14 certification fees

From 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fees for 2013-14 are based on actual certification fees for 2011-12, reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The 2013-14 fee for certification of housing benefit subsidy claims has been reduced from the indicative fee by a further 12% to reflect the removal of council tax benefit from the scheme. In addition, the certification work on Business Rates (the NNDR3 grant claim) was withdrawn for 2013-14 and is no longer within the Audit Commission's grant regime. As a result, the 2013-14 grant certification scale fee was reduced to reflect this.

Claim or return	2012-13	2013-14	2013-14
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	22,647	8,888	23,810 <sup>2</sup>
National non-domestic rates return	2,685	N/a	N/a
<b>Total<sup>3</sup></b>	<b>£25,332</b>	<b>£8,888</b>	<b>£23,810</b>

There was a variation in actual fees for 2013-14 compared to indicative fees for the following reasons:

► **Housing benefits subsidy claim**

The 2013-14 indicative fee is based on 2011-12 fee adjusted as set out above by the Audit Commission. The programme of testing completed in 2011-12 did not highlight any errors, extended testing was not required and the claim was submitted without qualification. The additional fee arises for the following reasons:

- As set out in more detail in section 1 of this report, in 2013-14 errors in the initial samples meant we had to complete eleven sets of additional testing as a result of errors found in non HRA rent rebates and modified schemes. We also identified and reported errors with uncashed cheques and the system parameter uprating.
- Officers within CenSus completed the additional testing required, but because of the volume of errors identified, we needed to provide support to officers in how to carry out and document the testing in the documentation required by the Audit Commission and DWP.
- The certification approach requires us to review and re-perform a sample of the additional testing undertaken by the Authority.
- The nature and extent of the errors identified in our testing meant we had to draft and agree a qualification letter to report our findings in these areas.

<sup>2</sup> As noted in Section 1, the fee shown is the fee to certify the claim. We have since received a letter from the Department for Work and Pensions requesting further work. There will be an additional fee for this work once it has been completed.

<sup>3</sup> Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

### 3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-15 is £16,710. The actual certification fee may be higher or lower if we need to undertake more or less work than in 2012-13 on individual claims or returns. Details of individual indicative fees are available at the following link:

[<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-fees-and-work-programme/individual-certification-fees/>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2012-13 fee.

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission (due April 2015).

The Audit Commission currently expects that auditors will continue to certify local authority claims for housing benefit subsidy from the DWP under the arrangements developed by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014-15. Arrangements for 2015-16 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016-17, when Universal Credit is expected to replace housing benefit.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made, or does not intend to make, certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those Teachers' Pensions introduced for the Teachers' Pensions return for 2013-14.

## 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>				
<b>1</b> Review the CenSus Quality Plan to ensure that it is robust and addresses the weaknesses reported in the 2013-14 qualification letter.	High	A Quality plan was implemented as a result of the 12/13 audit. This plan was internally audited and assurance given that the actions in the plan had been effectively undertaken. Some elements of the plan have been incorporated into 'everyday business' and are ongoing.  A further plan based on the 13/14 audit outcome is being developed and will be finalised once the DWP Performance Development Team have visited to offer guidance and/or advice. In the meantime, significant, diverse action is being taken to address issues raised in the 13/14 audit.	31/03/15	Tim Delany, Head of Revenues and Benefits (CenSus)
<b>2</b> Monitor progress against the CenSus Quality Plan and report progress to The CenSus Programme Board and CenSus Joint Committee.	High	Activity and outcomes related to the 13/14 action plan will be reported at each PMB and JC. The Benefits Manager will report and discuss progress with the Head of Service each month.	Ongoing	Tim Delany, Head of Revenues and Benefits (CenSus)
<b>3</b> Increase quality assurance checks and implement training in areas where errors have been identified including self-employed and earned income.	High	Activity is already being taken in these areas; additional staff have been deployed to complete an exercise to review all earned income and self-employed cases and to conduct 100% quality checks on 'current' cases.	Ongoing	Morag Freitas, CenSus Benefit Manager

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		Several strands of training have been (or are being) arranged.			
4	Undertake work on the 2014-15 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	High	The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.	30/03/15	Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager
5	Introduce robust, evidenced checks on the preparation of the subsidy claim to ensure that the Director of Corporate Resources can certify the claim to state that the authority's administrative systems, procedures and key controls for awarding benefits operate effectively.	High	See above.	Ongoing - at least monthly	Tim Delany, Head of Revenues and Benefits (CenSus)

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