

# Certification of claims and returns annual report 2015-16

Mid Sussex District Council

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Ernst & Young LLP



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The Members  
Audit Committee  
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Dear Members

## **Certification of claims and returns annual report 2015-16 Mid Sussex District Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Mid Sussex District Council's 2015-16 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 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 £33,159,591. We met the submission deadline. We issued a qualification letter – details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the subsidy due. Other errors we found were extrapolated and reported in our qualification letter. The total value of the extrapolations and errors in the qualification letter was £71,558. Added to the current year LA error and administrative delay figure on the claim form (£172,367) this breaches the LA error and administrative delay threshold of £173,829, meaning that the total sum of £243,925 may be clawed back by the DWP.



The Council has made some progress in implementing the five recommendations which we initially made in 2013-14 and additional actions have been put in place for 2016-17, although further improvements still need to be made. Details are included in section 4.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2015-16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting in March 2017.

Yours faithfully

**Paul King**  
Director  
Ernst & Young LLP  
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# 1. Housing benefits subsidy claim

| Scope of work  | Results   |
|--|---|
| Value of claim presented for certification                                       | £33,159,591 (amended claim value)   |
| Amended/Not amended  | Amended – subsidy increased by £105 Further details of reasons for amendment are set out below. |
| Qualification letter   | Yes   |
| Fee – 2015-16  | £17,858   |
| Fee – 2014-15  | £16,710   |
| Recommendations from 2014-15   | Findings in 2015-16   |
| We identified five recommendations in 2014-15 which remain relevant for 2015-16. | Our assessment of progress against these recommendations is set out 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 three samples of 20 cases for authorities with a Housing Revenue Account (HRA), covering HRA Rent Rebate, Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases, where each of these are applicable to the Council. Mid Sussex District Council does not have its own housing stock, therefore testing is limited to Non-HRA Rent Rebate and Rent Allowance cases, including related modified scheme cases. Where errors are identified in our initial testing, more extensive testing on an additional sample of 40 cases (or the total population if less than 40), for each error found. This is known as “40+” testing. We found errors and carried out extended testing in several areas.

The indicative fee is based upon the final fee for 2013-14, and the volume of additional testing required in 2015-16 was similar to that undertaken in 2013-14.

The “40+” testing identified a number of cases where similar errors had occurred. Where we tested 100% of the population, the Council amended the claim form.

For those “40+” tests where we did not test the whole population, we extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. This was then reported in our qualification letter, but no amendment was made to the claim form.

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.

A summary of the key issues found is shown below:

## Claimant Income

- **Non-HRA Rent Rebates:** Our initial testing identified one case where benefit was overpaid as a result of the Council incorrectly calculating schedule E earned income and three cases where benefit was underpaid as a result of the Council incorrectly calculating Schedule E earned income or an incorrect figure had been used for Child Tax Credits. We found similar errors in previous years covering different types of income. The remaining population of thirty-five cases containing

an income assessment were selected and tested. A further thirteen cases containing errors were identified, two leading to overpaid benefit, seven to underpaid benefit and a further four where there was no impact on the benefit paid. The claim form was amended to correct this error and was not reported in our Qualification Letter.

- Rent Allowances: Our initial testing identified one case where a claimant's benefit was overpaid as a result of incorrect calculation of Schedule E earned income and one case due to incorrect application of an earnings disregard. Testing also identified two claims which were underpaid as a result of incorrect calculation of Schedule E earned income and use of an incorrect figure had been used for Working Tax Credits. We found similar errors in previous years covering different types of income, therefore an additional 40 Rent Allowance cases containing an income assessment were selected and tested. The additional testing identified a further nine cases where benefit was overpaid and a further eight cases where benefit was underpaid or there was no impact as a result of an incorrect income assessment. We calculated an extrapolated error of £60,459 which was reported in our Qualification Letter.
- Rent Allowances: Our initial testing identified one case where the miscalculation of earnings also impacted on benefit in 2014-15. This has resulted in an understatement in the prior year LA error and admin delay figure. As a result we extended the testing of the additional sample of 40 cases selected from a sub-population of the headline cell of cases containing income to include periods of prior year overpayments. This identified one case where benefit had been overpaid resulting in an understatement of eligible prior year overpayments. We calculated an extrapolated error of £41 for LA error and admin delay overpayments and £172 for eligible overpayments which were reported in our Qualification Letter.

### Manual Adjustments

- Non-HRA Rent Rebates: Our initial testing identified one case which was misstated due to manual adjustments. The claim contained misclassification of overpayments as well as miscalculation of rent due to the manual adjustments attempting to correct the issue. It also included an instance where an overpayment generated in 2016-17 regarding 2015-16 was classified as a prior year overpayment in 2015-16. Given the nature of the error incorrectly allocating expenditure between cells and as the same type of error could impact other non-HRA rent rebate cells, where claims can be split across more than one cell, we selected the remaining population of one claim containing manual adjustments. No further errors were identified. The report for prior year overpayments was obtained. The claim identified in the initial testing was the only claim which was posted after 31 March 2016 and the only period which is actually within 2015/16 claim year. We therefore considered this to be an isolated error and no additional testing was performed. The claim form was amended to correct this error and was not reported in our Qualification Letter.

Additional testing was also performed on eligible overpayments, as detailed below.

### Rent Cost

- Rent Allowances: In our work on the 2014/15 claim we identified errors in respect of the calculation of eligible rent in rent allowances cases. Our initial testing also identified one case where benefit had incorrectly been classified as an eligible overpayment due to an incorrect application of the Local Housing Allowance (LHA) rent cap, when it should have been classed as normal benefit. An additional 40 Rent Allowances cases were selected and tested to confirm the correct rent had been applied. One further error was identified from the additional sample. We calculated an extrapolated error of £3,359 which was reported in our Qualification Letter.

## Overpayments

- Non-HRA Rent Rebates: Our initial testing identified one case mentioned above where benefit was miscalculated due to manual adjustments. The remaining population of four cases were tested which contained an eligible overpayment, no cases were misclassified. The claim form was amended to correct this error and this was not reported in our Qualification Letter.
- Rent Allowances: Our initial testing identified two case where an eligible benefit overpayment had been incorrectly classified as LA error and administrative delay and one claim where benefit had incorrectly been classified as an eligible overpayment due to an incorrect application of the LHA rent cap when it should have been classed as normal benefit. . An additional 40 Eligible Overpayment Rent Allowances cases were selected and tested to confirm correct classification of the overpayment. This identified two cases where benefit overpaid as a result of administrative delay had been incorrectly classified as eligible excess benefit as this was a result of incorrectly calculating the claimant's income. We calculated an extrapolated error of £7,699 which was reported in our Qualification Letter.

## Modified Schemes

- The Council undertook 100% testing of the modified scheme cases. Our review of these cases identified one Rent Allowance case where there was no evidence to support the state retirement pension for 2011-12, and an incorrect uprating of the state retirement pension using the 2012-13 circular. The effect of this error was to decrease the modified scheme value by £7 and increase the Rent Allowances claim cells by £7. Errors had also been identified in modified scheme cases in 2014-15. The claim form was amended to correct this error and this was not reported in our Qualification Letter.

## CenSus Action Plan

As part of the CenSus action plan in response to our findings and recommendations in our 2013-14 and 2014-15 certification reports, a large amount of work continued to be carried out during 2015-16 to provide training to staff members and to correct claims. This resulted in a high level of identified LA error and administrative delay overpayments before we commenced our certification work.

## Extrapolations

The total of the extrapolations and errors in the qualification letter had the effect of increasing:

- current year LA error and administrative delay overpayments by £71,517
- prior year LA error and administrative delay overpayments by £41; and
- prior year eligible overpayments by £172.

Where extrapolations impact the LA error and administrative delay overpayments balance, the DWP usually require that the extrapolation amount is repaid to the DWP.

The DWP review the combined LA error and administrative delay overpayments balance, taking the subsidy claim form value and the value of our extrapolations and, where this breaches the upper threshold, the total LA error and administrative delay overpayments incurred during the year are required to be repaid to the DWP. The LA error and administrative delay overpayments upper threshold was £173,829 and the total of the

amended claim form total (£172,367) and the extrapolation effect on the LA error and administrative delay overpayments (£71,558) is £243,925. This breaches the threshold and therefore the subsidy claim form total for LA error and administrative delay overpayments of £172,367 may be required to be repaid to the DWP in addition to the value of our extrapolations. The DWP determine the amount of subsidy to which the Council is entitled, therefore we cannot be precise regarding the amount of subsidy which the DWP may request to be repaid.



## 2. 2015-16 certification fees

The PSAA determine a scale fee each year for the certification 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.psa.co.uk](http://www.psa.co.uk)).

| Claim or return                | 2015-16         | 2015-16             | 2014-15         |
|--------------------------------|-----------------|---------------------|-----------------|
|                                | Actual fee<br>£ | Indicative fee<br>£ | Actual fee<br>£ |
| Housing benefits subsidy claim | 17,858          | 17,858              | 16,710          |
| <b>Total</b>                   | <b>17,858</b>   | <b>17,858</b>       | <b>16,710</b>   |

The indicative fee for 2015-16 is based upon the final fee for 2013-14, and the volume of additional testing required in 2015-16 was similar to that undertaken in 2013-14.

### 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 £12,533. 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 will inform the Head of Corporate Resources 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

Our findings from our 2015-16 work are similar to those from 2013-14 and 2014-15, where a number of recommendations were raised. We therefore believe it appropriate for the Council to continue to implement those recommendations raised in the past two years. These are outlined below, together with our assessment of progress to date.

| Recommendation   | Priority | Agreed action and comment  | Deadline  | Responsible officer                                | Progress To Date  |
|--|----------|--|-----------|--|---|
| 1 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 2012-13 certification work. 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.<br><br>A further plan based on the 2013-2014 certification work was developed and was finalised following the DWP Performance Development Team visit to offer guidance and advice. | 31/03/15  | Tim Delany, Head of Revenues and Benefits (CenSus) | We are aware the Quality Plan has been implemented and have seen evidence of this reducing the volume of errors identified. |
| 2 Monitor progress against the CenSus Quality Plan and report progress to the CenSus Programme Board (PMB) and CenSus Joint Committee (CJC). | High     | Activity and outcomes related to the 2013-2014 action plan have been reported at each PMB and CJC. The Benefits Manager reported and discussed progress with the Head of Service each month.   | Ongoing   | Tim Delany, Head of Revenues and Benefits (CenSus) | We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.               |
| 3 Increase quality assurance checks and implement training in areas where  | High     | Additional staff were deployed to complete an exercise to review all earned income and self-employed cases and to conduct  | Completed | Morag Freitas, CenSus                              | We have seen evidence of the Quality Plan implementation, with fewer errors identified in the                               |

|   |   |      |  |  |  |  |
|---|---|------|--|--|--|--|
|   | errors have been identified including self-employed and earned income.  |      | 100% quality checks on 'current' cases. Several strands of training have been and are being implemented.   |  | Benefit Manager  | areas of focus.  |
|   |   |      | Employ additional staff to check the accuracy of earnings case assessments   | Commenced Mid Dec 2016 and continues to end May 17 | Morag Freitas, CenSus Benefit Manager                                | This is a new action put in place during 2016-17. We have seen that additional members of staff have been employed by Council and we will wait for the 2016-17 work to determine the effect that this has had on reducing the volume of errors identified.   |
|   |   |      | Introduce a clerical action sheet for completion in all cases to enable staff to a) explain/justifies their decision on the evidence in each case and b take the time to review their decision in each case  | Completed  | Morag Freitas, CenSus Benefit Manager                                | This is a new action put in place during 2016-17. We will wait for the 2016-17 work to determine the effect that this has had on reducing the volume of errors identified.   |
| 4 | Undertake work or review the 2015-16 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. | Ongoing  | Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager | Evidence of review of the modified schemes and overpayment classification has been reviewed as part of the certification work. The initial training focus was on earned income and we identified fewer errors in this area in our initial testing for 2014-15. The training focus in 2015-16 was on self-employed earnings and we saw a reduction in the number of errors identified in this area. |
| 5 | Introduce robust, evidenced checks on the preparation of the subsidy claim to   | High | See above.   | Ongoing - at least monthly                         | Tim Delany, Head of  | We have seen evidence of the Quality Plan implementation, with fewer errors identified in the  |

ensure that the Head of Finance and HR can certify the claim to state that the Council's administrative systems, procedures and key controls for awarding benefits operate effectively.

Revenues and Benefits (CenSus) areas of focus.

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