

Certification of claims and returns annual report 2015-16

South Derbyshire District Council

2 February 2017

Ernst & Young LLP



EY

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Dear Members

Certification of claims and returns annual report 2015-16 South Derbyshire District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on South Derbyshire District Council's 2015-16 Housing Benefit claims and Pooling of Housing Receipts return.

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.

In addition to this, we also acted as reporting accountants in relation to South Derbyshire District Council's Pooling of Housing Receipts return which is outside the PSAA's regime.

Summary

Housing Benefits

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 £17,930k. We met the submission deadline. We issued a qualification letter to the Department of Works and Pensions (DWP); the details of the qualification matters are included in section 1. Our certification work found errors affecting a number of cells which the Council corrected. The amendments reduced the balanced owed by the Council by £31k.

Our testing identified a number of error types, a number of which have been identified in previous years. These matters were brought to the attention of the DWP in our qualification letter dated 30 November 2016. Further details are set out in section 5.

Pooling of Housing Capital Receipts

We also certified the 2015-16 Pooling of Housing Receipts Return with total receipts of £802,925. Our work did not result in any amendments to the return though; we raised two issues in the qualification letter dated 30 November 2016 to the Department of Communities and Local Government. Further details of this work are included in section 2.

Fees for certification and other returns work are summarised in section 3. 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).

Section 4 provides details of certification audit fees for 2016/17.

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

Yours faithfully

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£17,898,737
Amended	Amended – subsidy expenditure claimed increased by £31,582
Qualification letter	Yes
Certification fees to the Council	
Fee – 2015-16	£16,313
Fee – 2014-15	£24,440
Recommendations from 2014-15	Findings in 2015-16
The previous auditor did not issue an Annual Certification Report in 2014/15.	See below

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 a sample of 40+ cases where for each error type identified in the audit of the previous year's claim (2014/15) and for the current year (2015/16) a sample of 20 cases for each type of benefit.

We acknowledge that during 2015/16 the Council has worked with its Housing Benefit service provider to deliver ongoing training and maintain the appropriate quality assurance checks, however, the main audit finding is the level testing increased together with volume of errors when compared to 2014/15.

The results of our testing of cases for errors identified in the 2014/15 claim confirmed that the same types of error had occurred in 2015/16. Our initial testing of 2015/16 cases also identified some new error types which resulted in 40+ testing being carried out. These are the main issues we reported;

- ▶ Benefit both under and overpaid a result of a miscalculation of claimant's income
- ▶ Incorrect classification of overpayments
- ▶ Benefit overpaid due to incorrect tenancy start date being used
- ▶ Benefit overpaid due to double-counting of expenditure as a result of the housing benefit system not correctly applying an adjustment
- ▶ Benefit overpaid as a result of using an incorrect rent liability for the calculation
- ▶ Benefit underpaid as a result of not applying the 26 week easement correctly.
- ▶ Misclassification of expenditure in the subsidy claim
- ▶ Underpaid benefit as a result of applying the local housing allowances rate from 2014/15

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter to the DWP.

2. Other assurance work

During 2015-16 we also acted as reporting accountants in relation to the Pooling of Housing Receipts return.

This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in Section 3. They are referred to here to ensure Members have a full understanding of the various returns on which we provide some form of assurance.

The return was certified not amended and a qualification letter was issued to the Department of Communities and Local Government (DCLG) highlighting two issues.

1. CI test 6, relates to the cell F520PO, the actual amount of new-build expenditure between 1 April 2015 and 31 March 2016. The results of our testing identified the following issues:
 - a. Cell F520PO included expenditure from 2013/14 and 2014/15 totalling £388,474. We are satisfied that the expenditure was not included in the 2014/15 Pooling Return.
 - b. Our sample testing of the prior year expenditure of £388,474, included a land acquisition totalling £200,000. Our review of the Authority's prime records confirmed that land was already owned by the Authority and that the Finance & Management Committee gave an approval to grant an appropriation of the land from the General Fund to the Housing Revenue Account on 26 June 2014.

We confirmed to the Department that a sample of transactions tested from the residual balance of £188,474 had been incurred on social housing projects under a Section 11(6) agreement.

2. The quarterly returns to the DCLG for right to buy sales require the authority to confirm the property valuation at 1999 prices, using information from its Housing Revenue Account subsidy records. Our work identified that the prices were calculated manually rather than using subsidy records, which were no longer available.

3. 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 <http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	16,313	16,313	24,440
Pooling of Housing Receipts Return	2,500	N/a	Not reviewed

4. 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 £13,590. 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 are currently discussing with management arrangements to start the 2016/17 audit of the Housing Benefit audit early and working with the Council to ensure the process of bringing the benefits service back in-house does not affect the timely completion of our work.

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.

5. Summary of recommendations

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

Audit Finding	Priority	Agreed action and comment	Deadline	Responsible officer
<p>Housing benefits subsidy claim</p> <p>There are a number of error types arising from testing in the 2015/16 claim that had been reported in prior year qualification letters.</p> <ul style="list-style-type: none"> • Miscalculation of claimant income • Incorrect rental values used in the entitlement calculation • Incorrect tenancy start dates • Misclassification of overpayments • Eligible rent not consistent with the Rent Officer Decision 	High	The Council should review the adequacy of the current quality assurance arrangements and consider increasing the number of checks performed to target areas where error types that are consistently identified.	Ongoing	Director of Finance and the Client Services Manager.
<p>Pooling of Housing Receipts Return</p> <p>The return required capital expenditure for the period 1/4/15 to 31/3/16 but included amounts from previous financial years.</p>	Medium	Ensure that returns are complete and contain the financial data relevant to the requested financial year.	31 March 2017	Director of Finance and Corporate Services.
<p>The valuations at 1999 prices were not based on HRA subsidy records.</p>	Medium	Clarify with the DCLG if the basis of the manual calculation is acceptable in the absence of subsidy records.	31 March 2017	Director of Finance and Corporate Services.

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