

Certification of claims and returns annual report 2016-17

Maldon District Council

January 2018

Ernst & Young LLP



Building a better
working world

The Members of the Audit and Risk Committee
Maldon District Council
Princes Road
Maldon
CM9 5DL

26 January 2018
Ref: DH/HB17/MDC

Direct line: 07974 006715
Email: dhanson@uk.ey.com

Dear Members

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

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Maldon 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, the PSAA 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 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £14.8 million. We met the submission deadline. We issued a qualification letter for the housing benefit scheme claim and details of the qualification matters are included in Section 1.

Fees for certification 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 26 March 2018 Audit and Risk Committee.



Yours faithfully

Debbie Hanson
Associate Partner
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim 1

2. 2016-17 certification fees 3

3. Looking forward 4

4. Appendix A: Matters giving rise to qualification..... 4

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£14,848,901
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016-17	£13,283
Fee – 2015-16	£13,200

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 of a sample of 20 cases identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years' claims. We found errors and carried out extended testing in several areas.

Extended and other testing did not identify any errors which required amendment of the subsidy claim by the Council. We have reported overpayments, 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.

Our testing only identified errors in relation to rent allowance payments, which are the main benefit type paid by the Council. We have summarised below the main issues we reported in our qualification letter, which is included at Appendix 1:

- Initial testing identified one case resulting in an overpayment of benefit due to a miscalculation of the claimant's income. Extended '40+' testing was undertaken identifying three further errors. In one case the claimant's income was calculated incorrectly resulting in an overpayment of benefit and over claim of subsidy. In the other 2 cases the errors resulted in an underpayment of benefit, and therefore had no impact on subsidy claimed. The extrapolated impact of the errors was an over claim of subsidy of £33.
- Initial testing identified one case where the Authority had underpaid as a result of incorrectly calculating the claimant's tax creditor. Extended '40+' testing was undertaken as the nature of the error will not always result in an underpayment. This identified five cases of underpayment of benefit and two cases of overpayment. The extrapolated impact of the errors was an over claim of subsidy of £5,444.
- Initial testing identified two cases which resulted in the benefit being overpaid as a result of a date input error in the change of circumstances. Extended '40+' testing was undertaken, this testing identified 10 cases with errors; six cases where benefit had been underpaid and four cases where the Authority had overpaid benefit as a result of the error. The extrapolated impact of the errors was an over claim of subsidy of £4,171.
- Initial testing of the rent allowance eligible overpayments identified two cases where the overpayment was incorrectly classified as eligible overpayment rather than local authority error. As a result subsidy has been overpaid. Extended '40+' testing was

undertaken identifying one further case where the overpayment should not have been raised. The combined impact of these errors when extrapolated was to overstate eligible overpayment errors (on which the Council receives 40% subsidy) by £810.

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
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	13,283	13,283	13,200

The final fee is consistent with the indicative fee set by 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 £13,200. 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:

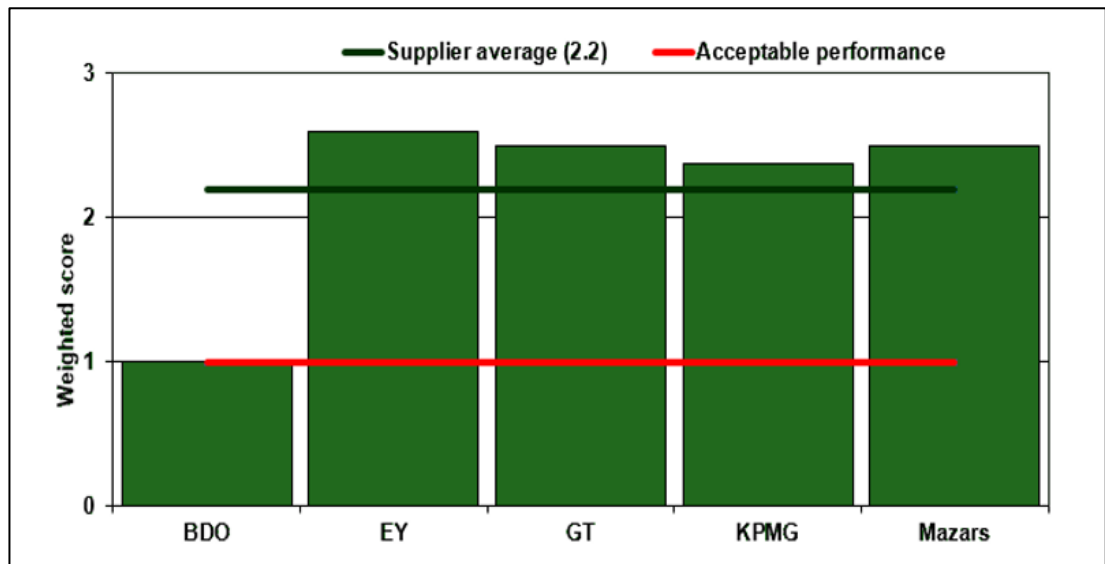
<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Resources 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 in early 2018.

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).



Appendix A: Matters giving rise to qualification

Cell 94: Rent Allowance – Total Expenditure (benefit granted)

Cell Total: £14,854,250

Cell population: 3,284

Headline Cell: £14,854,250

The testing of the initial sample identified:

- ▶ 1 case (total case value £4,500) where the Authority had overpaid benefit as a result of miscalculating the claimant's income.
- ▶ 1 case (total case value £1,820) where the Authority has underpaid benefit as a result of miscalculating the claimant's income. This was due to prior year parameters being used and hence would only ever result in an underpayment so no impact on subsidy. In addition this case had a period where the claim was stopped and then reinstated – Family Premium should have been reinstated but it wasn't and this resulted in an underpayment, however this would always result in an underpayment so again no impact on subsidy. For this case the tax credit has also been applied at the incorrect rate which has also resulted in an underpayment of benefit. Since this could result in an underpayment or overpayment 40+ testing has been carried out on tax credits;
- ▶ 3 cases (total case value £8,777) where the change in date of award (resulting from changes in circumstances) has not been actioned correctly and this has resulted in an overpayment of benefit for 2 of the cases and an underpayment for 1 case. 40+ testing has been carried out on change in date of award; and

Each of these errors is dealt with separately below:

Error in Earnings

Cell 94: Rent Allowance – Total Expenditure (benefit granted)

Cell Total £14,854,250

Cell Total £5,086,201 – sub population

Cell population 1,332

Headline Cell £14,854,250

Testing of the initial sample identified 1 case (total case value £4,500) where the Authority had overpaid benefit as a result of miscalculating the claimant's income. As a result subsidy has been overpaid, the effect of this error is to overstate cell 102, with a corresponding understatement of cell 113; there is no impact on cell 094.

Given the nature of the population and the errors found, and additional random sample of 40 cases was selected from a sub-population of claims with an earnings element. This additional testing identified:

- ▶ 1 case (total case value £114) where the Authority had overpaid benefit as a result of miscalculating the claimant's income. As a result subsidy has been overpaid, the effect of this error is to overstate cell 103, with a corresponding understatement of cell 113; there is no impact on cell 094.
- ▶ 2 cases (total case value £8,167) where the Authority had underpaid benefit as a result of miscalculating the claimant's income. As there is no eligibility for subsidy that has not

been paid, these underpayments do not affect subsidy, and have not been classified as an error for subsidy purposes.

The results of our testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total – sub population	Sample error:	Sample value:	Percentage error rate:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 10 cases	Incorrect assessment of earned income	£5,086,201	(£0.15)	£41,477			
Additional sample – 40 cases	Incorrect assessment of earned income	£5,086,201	(£1.29)	£177,789			
Combined sample – 60 cases	Incorrect assessment of earned income	£5,086,201	(£1.44)	£219,266	(0.0006567)	(£33)	5,086,168
Adjustment	Combined sample. Cell 102 overstated.	£5,086,201	(£0.15)	£219,266	(0.0000684)	(£3)	
Adjustment	Combined sample. Cell 103 overstated.	£5,086,201	(£1.29)	£219,266	(0.0005883)	(£30)	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£33	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £0.15 to £158.76 and the benefit periods range from 1 week to 16 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Tax Credits

Cell 94: Rent Allowance – Total Expenditure (benefit granted)

Cell Total £14,854,250

Cell Total £3,916,223 – sub population

Cell population 971

Headline Cell £14,854,250

Testing of the initial sample identified 1 case (total case value £1,820) where the Authority had underpaid benefit as a result of an error in the calculation of the claimant's tax credits. As there is no eligibility to subsidy for benefit that has not been paid, these underpayments do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes. However, because errors in the calculation of tax credits could result in overpayments an additional random sample of 40 cases was tested from the sub-population of cases with a tax credit element. This additional testing identified:

- ▶ 2 cases (total case value £15,074) where the Authority had overpaid benefit as result of an error in the calculation of the claimant's tax credits. As a result subsidy has been overpaid, the effect of these errors is to overstate cell 102 and 103, with a corresponding understatement of cell 113; there is no impact on cell 094.
- ▶ 5 cases (total case value £16,975) where the Authority had underpaid benefit as result of an error in the calculation of the claimant's tax credits. As there is no eligibility to subsidy for benefit that has not been paid, these underpayments do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes.

The results of our testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total – sub population	Sample error:	Sample value:	Percentage error rate:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 5 cases	Tax credit applied at incorrect amount	£3,916,223	(£0.00)	£21,445			
Additional sample – 40 cases	Tax credit applied at incorrect amount	£3,916,223	(£262.29)	£167,721			
Combined sample – 60 cases	Tax credit applied at incorrect amount	£3,916,223	(£262.29)	£189,166	(0.139)	(£5,444)	£3,910,779
Adjustment	Combined sample. Cell 102 overstated.	£ 3,916,223	(£245.54)	£189,166	(0.130)	(£5,091)	
Adjustment	Combined sample. Cell 103 overstated.	£3,916,223	(£16.75)	£189,166	(0.009)	(£353)	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£5,444	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £0.03 to £186.12 and the benefit periods range from 1 week to 19 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Change in Date of Award

Cell 94: Rent Allowance – Total Expenditure (benefit granted)

Cell Total £14,854,250

Cell Total £5,086,201 – sub population

Cell population 1,332

Headline Cell £14,854,250

The testing of the initial sample identified 2 cases (total case value £7,071) where the Authority had overpaid benefit as a change in the claimant's circumstances had been applied from an incorrect date. As a result subsidy has been overpaid, the effect of these errors is to overstate cell 95 and 102, with a corresponding understatement of cell 113; there is no impact on cell 094.

Given the nature of the population and the errors found, we undertook specific testing to check whether the change in date of award was correctly applied in our random sample of 40 cases already selected for the sub-population of error in earnings.

This additional testing identified:

- ▶ 4 cases (total case value £18,270) where the Authority had overpaid benefit as a change in the claimant's circumstances had been applied from an incorrect date. As a result subsidy has been overpaid, the effect of these errors is to overstate cells 99 and 103, with a corresponding understatement of cell 113; there is no impact on cell 094.
- ▶ 6 cases (total case value £28,183) where the Authority had underpaid benefit as a change in the claimant's circumstances had been applied from an incorrect date. As there is no eligibility to subsidy for benefit that has not been paid, these underpayments do not affect subsidy and have not, therefore, been classified as an error for subsidy purposes.

The results of our testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total – sub population	Sample error:	Sample value:	Percentage error rate:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 10 cases	Change in award applied from incorrect date	£5,086,201	(£22.68)	£41,477			
Additional sample – 40 cases	Change in award applied from incorrect date	£5,086,201	(£156.02)	£177,789			
Combined sample – 60 cases	Change in award applied from incorrect date	£5,086,201	(£178.70)	£219,266	(0.082)	(£4,171)	£5,082,030
Adjustment	Combined sample. Cell 095 overstated.	£ 5,086,201	£0.22	£219,266	(0.0001)	(£5)	

Adjustment	Combined sample. Cell 099 overstated.	£ 5,086,201	£40.15	£219,266	(0.0185)	(£941)	
Adjustment	Combined sample. Cell 102 overstated.	5,086,201	£22.46	£219,266	(0.0103)	(£524)	
Adjustment	Combined sample. Cell 103 understated.	£ 5,086,201	£115.87	£219,266	(0.0531)	(£2,701)	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£4,171	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £0.03 to £65 and the benefit periods range from 1 week to 16 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Eligible Overpayments

Cell 114: Rent Allowance – Local Authority Eligible Overpayments (Current Year)

Cell Total £201,014

Cell population 860

Headline Cell £14,854,250

Testing of the initial sample identified 2 cases (total case value £11,324) where the overpayment should have been classified in cell 113 (LA error) not cell 114. Consequently, cell 114 is overstated and cell 113 is correspondingly understated. There is no effect on cell 094.

Given the nature of the population and the errors found, we tested an additional random sample of 40 cases from the sub-population of eligible overpayments.

This additional testing identified:

- 1 case (total case value £9.20) where the overpayment should not have been raised and cell 114 is therefore overstated and cell 103 is correspondingly understated; there is no effect on cell 94.

The results of our testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total – sub population	Sample error:	Sample value:	Percentage error rate:	Cell adjustment:	Revised cell total if adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 9 cases	Misclassification of overpayment	£201,014	(£160.34)	£38,289			
Additional sample – 40 cases	Error in calculation of overpayment	£201,014	(£9.20)	£3,825			
Combined sample – 60 cases	Misclassification of overpayment	201,014	(160.34)	£42,114	(0.381)	(766)	£200,248
Combined sample – 60 cases	Error in calculation of overpayment	£201,014	(£9.20)	£42,114	(0.0219)	(£44)	£200,970
Adjustment	Combined sample. Cell 114 overstated.	£201,014	£169.54	£42,114	(0.4026)	£810	
Total Corresponding adjustment	Total understatement of cell 113.	-	-	-	-	£766	
Total Corresponding adjustment	Total understatement of cell 103	-	-	-	-	£44	

The percentage error rate in our sample reflects the individual cases selected. The value of the error found was £9.20 to £103.90 and the benefit periods range from 1 week to 3 weeks. Similar findings were included in our qualification letters for 2013/14, 2014/15 and 2015/16.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)