

Merton Council

Certification annual report 2014-15

February 2016

Ernst & Young LLP



Building a better
working world

The Members of the General Purposes Committee
Merton Council
Civic Centre
London Road
Morden, SM4 5DX

10 March 2016

Direct line: 0118 928 1556
Email: pking1@uk.ey.com

Dear Members

Certification of claims and returns annual report 2014-15 Merton Council

We are pleased to report on our certification work. This report summarises the results of our work on Merton Council's housing benefit subsidy claim.

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, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. 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.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This 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 Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014-15 housing benefit subsidy claim certification work and highlights the significant issues.

The housing benefits subsidy claim had a total value of £97.1 million. We met the submission deadline. We issued a qualification letter, and details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the subsidy due.



Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the General Purposes Committee.

Yours faithfully

Paul King
Executive Director
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim.....	1
2. 2014-15 certification fees.....	3
3. Other assurance work	4
4. Looking forward.....	5
5. Summary of recommendations.....	6

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£97,123,884
Amended/Not amended	Amended – subsidy reduced by £11,335
Qualification letter	Yes
Fee – 2014-15	£37,760
Fee – 2013-14	£54,989

Recommendations from 2013-14	Findings in 2014-15
<ul style="list-style-type: none"> - Embed and extend a rolling programme of peer review of a sample of new and existing claims to drive up overall accuracy and completeness of claims and further improve the level of expertise among claims officers. Implement measures to demonstrate improvement in performance in accuracy and completeness in these areas. - Continue with an ongoing programme of targeted training in those areas identified in this year's work as 'easy wins' and refresher training in those areas of greater complexity and where errors occurred in this and previous years. - Carry out earlier work on completing initial and extended testing workbooks to help with project management of the schedule of work required to enable timely certification of the claim by external audit. - Identify and carry out early review of those cases where there are potential issues around failure of transfer of information from central government systems. 	<p>The level of errors identified in 2014-15 was reduced compared to previous years, however, 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 which were identified during the course of our work and which required manual amendments to the claim form.</p>

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 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 ten areas relating to officer error, and six areas as a result of system errors. This compares to 17 in the previous year, with one area resulting from a system error.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported 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.

The following are the main issues included in our qualification letter:

<p>Underpaid benefit and overpaid benefit as a result of errors in income assessment.</p>	<p>Testing identified both underpaid and overpaid as a result of incorrectly calculating claimant income.</p> <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes.</p> <p>The overpayment errors have been extrapolated across the relevant cell totals and reported to the DWP.</p>
<p>Misclassification of overpayments</p>	<p>The level of subsidy for overpayments is determined by the classification of the overpayment. The misclassification errors found resulted in both overstatements and understatements of subsidy claimed.</p>

As noted above, the number of areas for extended testing was reduced in 2014-15 compared to 2013-14 which suggests that the Council has improved the overall accuracy of the claim form. The areas identified as errors had also been identified in previous years, and therefore we would suggest that the Council continues its programme of peer review and targeted training in high risk areas. As the certification work outcomes are identified quite late in the financial year subsequent to the one that is being reported on, the full impact of new working practices or training implemented in response to the 2013-14 recommendations would not necessarily be apparent until the 2015-16 grant claim.

Several of the amendments required to the claim form were as a result of system errors. Although these were identified by our initial testing in May 2015, these were not ultimately quantified and resolved until November 2015. We would therefore recommend that the Council's engagement of its software provider in identifying the root cause behind these errors and their resolution is more timely.

We also note that there is the possibility that the system errors encountered could have a continuing impact in 2015-16. We would encourage the Council to ensure that it continues to work with its software provider to ensure that these issues are resolved prior to the submission of the 2015-16 claim form.

In 2014-15 initial testing was completed by our audit team with 90% of extended testing provided to officers for completion by 4 August 2015. Completion of the extended testing was protracted which caused delay to the finalisation of the qualification letter and final claim form. We will therefore continue to work with officers to ensure that extended testing is completed in a more timely manner.

2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	54,989	37,760	37,760
Total			

3. Other assurance work

During 2014-15 we also acted as reporting accountants in relation to the following scheme.

Teachers' Pensions

We have provided separate reports to the Council in relation to this return. This work has been undertaken outside the Audit Commission/PSAA regime, and the fees for this of £8,500 (2013-14: £10,000) are not included in the figures included in this report. They are referred to here for completeness to ensure to ensure Members have a full understanding of the returns on which we provide some form of assurance. We did not identify any significant issues as part of this work that need to be brought to the attention of Members.

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 2015-16 is £41,242. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2013-14.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Corporate Services before seeking any such variation.

5. Summary of recommendations

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Carry out earlier work on completing extended testing workbooks to help with project management of the schedule of work required to enable timely certification of the claim by external audit.	High	Agreed – and more regular updates on progress to be provided	In place by 30 April 2016	David Keppler Head of Revenues and Benefits
Raise and resolve system issues with Civica as soon as they are identified. Where system issues were identified in 2014/15, ensure that these have been appropriately resolved prior to the submission of the 2015/16 claim.	High	Agreed – we will do this but resolution may be out of our control	In place by 31 March 2016	David Keppler Head of Revenues and Benefits
Continue programme of peer review of new and existing claims as well as targeted training in areas with higher error rates	High	Agreed – this action is ongoing	In place by 31 March 2016	David Keppler Head of Revenues and Benefits

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

This page is intentionally left blank