

Certification of claims and returns annual report 2017-18

London Borough of Merton

7 February 2019

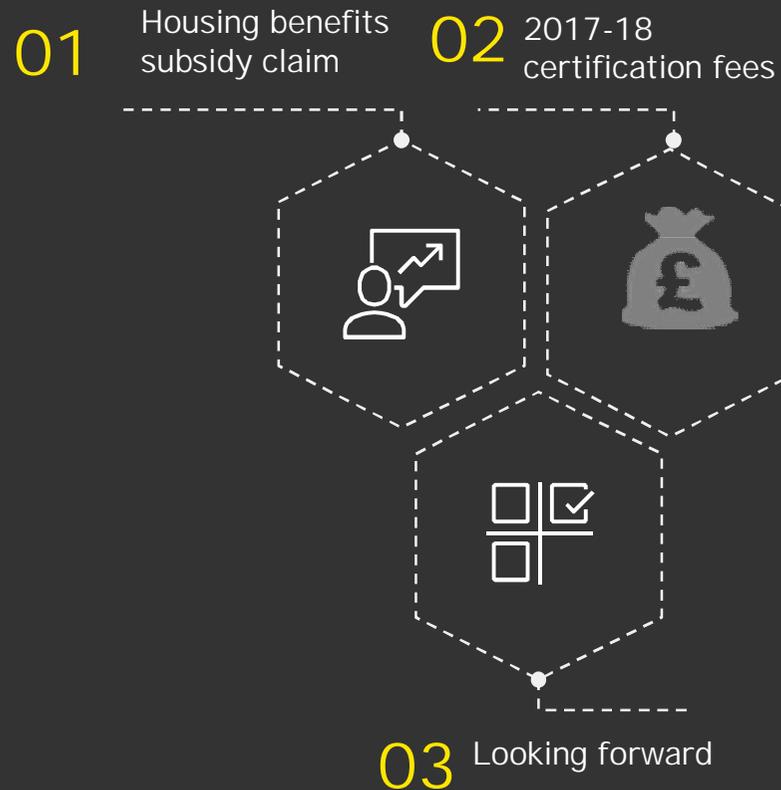
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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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Agenda Item 4

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This report is made solely to the Standards and General Purposes Committee and management of the London Borough of Merton. Our work has been undertaken so that we might state to the Standards and General Purposes Committee and management of the London Borough of Merton those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee and management of the London Borough of Merton for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 - Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£82,294,568
Amended/Not amended	Amended – subsidy reduced by £9,342 (final certified value £82,285,226)
Qualification letter	Yes
Fee – 2017-18	£51,227 (to be agreed)
Fee – 2016-17	£30,555

Findings

The Council 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 reporting accountants to follow a programme of work specified by DWP. Detailed case testing is carried out on an initial sample of 20 cases per benefit type. More extensive '40+' or extended testing is undertaken 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 certification of previous years claims.

We found a relatively large number of errors and needed to undertake significant amount of additional work. In particular issues relating to a software bug with the CIVICA housing benefit system used by the Council resulted in neither us or the Council being able to balance a significant number of the cases we selected for detailed testing. Significant time was spent by both us and the Council trying to understand and balance these cases prior to the Council and its software supplier being able to identify the root cause of the problem. This issue is considered in more detail below.

Extended and other testing identified errors, some of which the Council amended and some of which were reported in our qualification letter.

We have reported underpayments, uncertainties and the extrapolated value of other errors resulting in overpayments in our qualification letter. We also reported an estimate of the potential number and value of claims impacted by the CIVICA bug issue based on the results of the work we had undertaken. 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. We include in this report a summary of the main issues we reported in our qualification letter, or which led to agreed amendments to the final subsidy claim, as follows:

Cross-cutting issue: CIVICA software bug

Testing of both the discovery and extended testing samples was significantly delayed by neither us or the Council being able to balance detailed cell expenditure for cases tested to the amount shown as appearing in the headline cell for a proportion of the cases tested. For impacted cases we were therefore unable to conclude that benefit expenditure was correctly classified on the claim and therefore that benefit subsidy due to the Council was correctly reported in the claim. We were also unable to specifically quantify the value of any over or under-payment arising from any failure in respect of the attribute tested as part of the extended testing undertaken.

After significant further investigation by the Council in late October 2018, 6 months after work on the claim had commenced, it became clear that the issue was caused by a known bug in the CIVICA benefits software which appeared to effect more complex claims where multiple prior year adjustments to benefit entitlement had been made by the Council. The issue was not resolved by late November 2018. As we were not able to report results for impacted cases a decision was taken jointly with the Council that the claim would not be certified by the deadline of 30 November 2018 to allow time for the issue to be resolved by CIVICA through updates to the housing benefit software.

01- Housing benefits subsidy claim (continued)

As a result of the issue outlined the Council applied to the Department for Work and Pension (DWP) to extend the deadline for certification of the claim. This application was refused and the DWP determined that a proportion of the cash payment of interim benefit subsidy due to the Council in the current year (2018/19) would be withheld until the claim was certified. Although our understanding is that the issue has now been resolved by CIVICA and the Council for some of the cases impacted, the Council is not satisfied that the problem has been fully corrected at February 2019. Given that, and the decision by DWP to withhold current year cash payments of subsidy, we concluded after consultation with the Council that we would report the findings of our work excluding cases effected by the CIVICA bug. We have explained this approach to the DWP as part of our qualification letter and, based on the results of our work, estimated the current proportion of the Council's housing benefit caseload impacted by the bug. Based on the results of our work we have reported that approximately 10 per cent of total cases by number and 11 per cent of total cases by financial value are effected by this issue. See Recommendation 1 below

Cross-cutting issue: Version of benefits software used to generate the claim

As part our work we detected that the Council had been using an out of date version of the CIVICA housing benefit software to produce the draft claim submitted for audit in April 2018. The Council prepared a revised version of the claim based on the correct up to date version of the software in late August 2018. Although the overall financial impact was not significant this resulted in some claims and related expenditure being re-classified in the updated claim. As a result of this:

- We needed to review our original discovery samples and re-select and test any cases that had been impacted by the reclassification of claim and related expenditure.
- The Council needed to re-work manual adjustments made to the claim, which we then needed to re-audit.

See Recommendation 2 below

Rent Allowances: Incorrect classification of expenditure

Testing of the initial sample identified one case where the Council had classified expenditure incurred as within Local Housing Allowance (LHA) rules when the landlord was a provider of social housing. Although this resulted in an underpayment of benefit we concluded that expenditure misclassification could result in an overpayment of subsidy and therefore tested an additional sample of 40 cases. This identified no further failures and it was therefore not necessary to report this issue as part of our qualification letter.

Rent Allowances: Incorrect assessment of weekly rent liability

Testing of the initial sample identified two cases where benefit entitlement had been assessed using an incorrect weekly rent liability, one of which resulted in the overpayment of benefit. We therefore determined it was necessary to test an additional sample of 40 cases. For both of the failed cases the claimant was accommodated by the same housing association, Clarion Housing. We were only able to test 39 case due to the impact of the CIVICA bug. (continued overleaf)

01- Housing benefits subsidy claim (continued)

Rent Allowances: Incorrect assessment of weekly rent liability (continued)

We shared the results of our initial testing with the Council. The potential cause of the issue was identified as result of the method used by the Council to update rents on the CIVICA HB system for Clarion cases. An electronic data file of rent increases for the period is uploaded to CIVICA to update the rent liability. However, where there is no rent reference on the system for a given case the system is unable to match the updated rent liability to the case resulting in the rent liability is not updated and is therefore not correct. This then results in an error in the calculation of benefit entitlement and a corresponding unrecorded over or under-payment of benefit dependent on whether the rent liability should have increased or decreased.

As a result of this a decision was taken jointly with the Council that it should extract a listing of all Clarion cases with a missing rent reference, manually update the rent liability on the system and determine the impact of the change on the assessment of entitlement so that a complete amendment could be made to the claim. This work was undertaken by the Council and audited by us. Errors were detected in the initial work undertaken which were corrected and we ultimately were able to agree an adjustment to the claim. This has the impact of increasing local authority overpayment errors recorded in the claim by approximately £27,000.

Following completion of this exercise we excluded all Clarion cases with missing rent reference numbers from the results of our work. This left two remaining failed cases where an incorrect weekly rent liability had been used to calculate benefit entitlement leading to an overpayment that were not Clarion cases with missing rent reference numbers. We extrapolated these results as part of our qualification letter.

The extrapolated impact of these errors was £10,290, resulting in understatement of the relevant Local Authority Error cell and overstatement of the relevant eligible expenditure cell.

We understand that the Council has now take action to ensure that all Clarion Housing cases now have a valid rent reference number on the CIVICA system to avoid a recurrence of this problem, but have not tested this.

See Recommendation 3 below

Rent Allowances: Self-employed income

No relevant failures were identified in our initial testing. However, based on our prior year experience of the claim where errors of the type were detected we were required to test an extended sample of 40 cases to determine whether claimant earned income had been correctly assessed in the calculation of benefit entitlement. The same sample covered two issues detected in the prior year:

- Instances where self-employed income had been incorrectly calculated.
- Instances where start date of self-employed income had been incorrectly applied.

We were only able to test 33 cases because of the impact of the CIVICA bug.

Our testing identified 18 cases where earned income had not been correctly assessed in the determination of benefit entitlement, four of which resulted in the overpayment of benefit. We extrapolated these results as part of our qualification letter.

The extrapolated impact of these errors was £41,674, resulting in understatement of the Local Authority Error cell and overstatement of the relevant eligible expenditure cell.

01 - Housing benefits subsidy claim (continued)

Rent Allowances: Student loan income

No relevant failures were identified in our initial testing. However, based on our prior year experience of the claim where errors of the type were detected we were required to test an extended sample of 40 cases to determine whether student loan income had been correctly assessed in the calculation of benefit entitlement. We were only able to test 31 cases because of the impact of the CIVICA bug.

Our testing identified 17 cases where student loan income had not been correctly assessed in the determination of benefit entitlement, eight of which resulted in the overpayment of benefit. We extrapolated these results as part of our qualification letter.

The extrapolated impact of these errors was £7,453, resulting in understatement of the Local Authority Error cell and overstatement of the relevant eligible expenditure cell.

Rent Allowances: Non-dependant income

No relevant failures were identified in our initial testing. However, based on our prior year experience of the claim where errors of the type were detected we were required to test an extended sample of 40 cases to determine whether non-dependant income had been correctly assessed in the calculation of benefit entitlement. We were only able to test 39 cases because of the impact of the CIVICA bug.

Our testing identified six cases where non-dependant income had not been correctly assessed in the determination of benefit entitlement, one of which resulted in the overpayment of benefit. We extrapolated these results as part of our qualification letter.

The extrapolated impact of these errors was £5,807, resulting in understatement of the Local Authority Error cell and overstatement of the relevant eligible expenditure cells.

See Recommendation 4 below

Recommendations

1. Work with CIVICA to resolve all remaining cases impacted by the CIVICA bug issue as a matter of priority. The Council should also seek to better understand and address the root cause of the problem given the scale of impact to avoid any recurrence in the future.
2. Ensure that all required software updates have been run on the CIVICA housing benefit system prior to the production of the draft 2018/19 Housing Benefit claim.
3. Ensure that all Clarion Housing cases have a valid rent reference on the CIVICA housing benefit system so that the upload of updated weekly rent liability data for Clarion Housing cases in 2018/19 is complete.
4. Continue to work to improve the overall control environment within the Housing Benefit Department to reduce the relatively high level of error in the assessment of benefit and claiming of subsidy

02 - 2017-18 certification fees

PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the PSAA and are available on their website (www.psaa.co.uk).

Claim or return	2017-18 Actual fee	2017-18 Indicative fee	2016-17 Actual fee
Housing benefits subsidy claim	£51,227	£41,242	£30,555

The indicative scale fee for 2017/18 of £41,242 is based on the final fee charged in 2015/16.

Our proposed final fee for 2017/18 is £51,227, an increase of £9,985, arising from a comparison of the total quantum of work undertaken in 2017/18 compared with 2015/16. In 2017/18, three more lots of extended testing were undertaken compared to 2015/16, either as a result of errors identified in the year, or as a result of prior year errors which the methodology required to be followed up in 2017/18. The following issues also required us to undertake significantly more work in 2017/18:

➤ The CIVICA bug issue and the amount of time spent trying to balance cases that ultimately could not be balanced. The Council was not able to identify the root cause of this issue until approximately 6 months after submission of the draft claim for audit.

➤ The failure to produce the claim using the required up to date version of the benefits software and the consequential need to re-produce the claim, re-process and audit manual adjustments and identify and replace cases from our initial testing that were effected by reclassification caused by the need to re-produce the claim.

- Deficiencies in testing work undertaken by the Council and the need to improve the quality of the documentation and re-perform the work.
- The amount of time spent on the Clarion Housing issue to determine and audit a complete adjustment to the claim, which culminated in the Council needing to re-perform the exercise a number of times due to error.
- The number of amendments made to the claim and the need for the Council to re-prepare an amended claim a number of times because of errors in the adjustments made and/or required adjustments not being made at all.

The additional fee is based on the additional auditor hours required in respect of the extended testing, and hourly rates which are stipulated by PSAA. We will discuss and agreed the overall fee increase with the Director of Corporate Resources. The final fee is subject to agreement by PSAA.

03 – Looking forward

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their housing benefit subsidy claims in accordance with the instructions determined by the DWP. We are pleased that for 2018-19 the Council has appointed us to act as reporting accountants in relation to the housing benefit scheme. We welcome this opportunity to continue undertaking this work for the Council providing a quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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