

Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Director of Finance

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Date: 29 March 2018

## **Audit Report on the Certification of Financial Claims and Returns 2016-17: Housing Benefit Subsidy and Pooling Housing Capital Receipts**

### **Executive Summary:**

The Council has received an audit report on the certification of financial claims and returns for 2016-17. The audit covers claims returns relating to expenditure of £39.85 million, spanning:

- Housing Benefit Subsidy worth £34.5 million
- Pooling of Housing Capital Receipts worth £5.35 million

Although it has been necessary to qualify the Subsidy claim, the auditor found a minimal number of errors. The auditor's report is very favourable towards the performance of the Benefits service, highlighting the improvements made compared to last year – with no new error types identified, and a reduction in errors found. The auditors carried out a lower volume of additional testing compared to last year and, as a result, there is no additional audit fee to approve, the additional work being covered within the set scale fee.

We have provided assurance to the Department for Work and Pensions (DWP) that we are continuing with our checking regime and looking for ways to reduce errors further.

The auditor had no issues to report in respect of the total capital receipts.

### **Recommendation to Committee:**

That the position regarding the certification of financial claims and returns for 2016-17, be noted.

### Reason for Recommendation:

To formally sign off our claims and returns for 2016-17.

## 1. Purpose of Report

- 1.1 The Council has recently received a report from its external auditors Grant Thornton (GT) regarding their work to certify our financial claims and returns relating to the financial year 2016-17. GT's report is attached at Appendix 1.
- 1.2 The GT report relates to the qualification of our Housing Benefit Subsidy claim and the certification of the Pooling of Housing Capital Receipts.

## 2. Strategic Priorities

- 2.1 The audit of claims and returns support our values for our residents to deliver quality and value for money services.

## 3. Background

- 3.1 GT is required to certify certain claims and returns we make. The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies.
- 3.2 GT certified the Housing Benefit Subsidy claim relating to our claim of £34.5 million.
- 3.3 We also asked GT to carry out work on our Pooling of Housing Capital Receipts return (£5.35m) in line with the Department for Communities and Local Government's Assurance Instruction. This work was formerly certified under the Audit Commission Act but is now a separate audit-related service.

## 4. Audit Findings

### *Pooling Housing Capital Receipts:*

- 4.1 GT have no issues to report in respect of the total capital receipts subject to pooling of just over £698,000 or the one-for-one expenditure of £3.184 million.

### *Housing Benefit Subsidy:*

- 4.2 GT identified a number of matters from the certification work, the details of which are contained in *Appendix A* of their report attached at **Appendix 1**. These matters resulted in the Auditor qualifying our subsidy return, but this qualification does not mean that the Council's accounts have to be re-opened having previously been signed off.
- 4.3 For 2016-17, it is pleasing to report a reduction in the number of errors identified compared to the previous year. GT identified no new error types, and three of the five error types from previous years had no further errors identified.
- 4.4 In summary, because the auditors found errors as set out in their report in Appendix 1 the Subsidy claim is qualified. However, these errors did not lead to any amendment of the claim, and DWP confirmed on 12 February 2018 that the full £34.5 million will be paid to the Council.

- 4.5 This is the fifth year running that we have had the subsidy claim qualified. Whilst it is good news that our claim has not changed as a result, the techniques of extrapolation used by GT following DWP guidance could easily count against us in the future, as it did in 2012-13 and 2013-14.
- 4.6 In terms of managing the risks associated with financial claw backs available to the DWP, the current financial year has witnessed severe staffing shortages. These were as a result of retirements of key experienced staff, the advent of HMRC rules regarding the IR35 regime (affecting our ability to retain and recruit suitable agency or contract Benefit Assessors) and the promotion of an Assessor to a role as a trainee accountant.
- 4.7 In mitigation, the Exchequer Services Manager has contracted the *On Demand Assessment Service* from our software supplier Civica, and taken the opportunity to restructure the whole of the former Revenue and Benefits Service to provide greater resilience going forward. This has taken a long while to put together, the unsettling nature of which could adversely affect the subsidy claim this time next year.

## **5. Advice**

- 5.1 The Committee is advised of the following as a broad commentary of the 2016-17 Housing Benefit Subsidy claim:
- 5.2 There are no adjustments to our Subsidy claim this year, despite being qualified.
- 5.3 Unlike the 2015-16 audit, we have not been asked to pay any additional audit fees above the standard fee.
- 5.4 We continue to use an independent audit company to check claims to allow us to take action on any errors found, and thereby minimise the likelihood of auditors finding subsidy errors in future. However, qualification of Subsidy means that the auditors carry out additional testing in subsequent years. This potentially means they will find more errors, creating a virtuous circle. This is illustrated in the current report where no errors were found in the initial 20 case testing, but were identified in the additional sample.
- 5.5 The overall value of the subsidy claim is £34.5 million - the amount of benefit paid to claimants on behalf of the government. From the additional sample, GT identified errors on 15 claims resulting in overpayments totalling £1,800. As there was variation in the errors found GT could not conclude that the rest of the subsidy was correctly stated and therefore qualified it.
- 5.6 The DWP does not have a financial tolerance level. Even 5p per week is expected to be extrapolated across an entire caseload should they need us to do so.
- 5.7 The qualification of the Housing Benefit Subsidy claim does not qualify the Council's financial accounts. Officers are aware that around 70% of councils have been qualified on their subsidy claim, but this does not mean the other 30% are 'perfect'.

- 5.8 It is the nature of the volume and complexity of the work that creates errors, although in view of our workload the percentage of errors financially is minimal. In 2016-17, the Benefits Service processed nearly 2,500 new claims for Housing Benefit and Local Council Tax Support and completed over 25,000 changes in circumstances to claims.
- 5.9 We have taken plenty of steps to improve our competency, using various training methods and education for our Benefit Assessors, but as with any large and complex system, errors are bound to creep in. Overall, they do an excellent job with high accuracy rates, an excellent customer attitude and high levels of tolerance for all of the legislative, administrative and computer changes they have to deal with.
- 5.10 We need to address the errors we make no matter how minor, to avoid qualification of the Housing Benefit subsidy claim in future years. This will be difficult because once the claim is qualified, additional checking is carried out in future years, with the chance of further errors being identified.
- 5.11 The caseload of Housing Benefits claims has changed drastically in recent years and far more claims are received in relation to complex self-employment circumstances than previously. This has resulted in complex calculation of claims but a requirement still exists for good speed of processing for new claims and changes in circumstance to be retained. Although all these factors remain challenging we remain committed to paying people their Housing Benefit quickly, dealing with their changes in circumstances promptly and making sure the right level of benefit is paid on every claim processed. As previously advised, this has become extremely challenging due to staffing changes and will take the best part of 2018 to recover our position.
- 5.12 We have provided assurance to the DWP that we are continuing with our checking regime and looking for ways to reduce errors further.

## **6. Financial Implications**

- 6.1 The financial implications arising from this report are set out in the main text.
- 6.2 The indicator scale fee set by the Audit commission regime for the Council for 2016-17 is £19,993.
- 6.3 We also asked GT to carry out work on our Pooling of Housing Capital Receipts return in line with DCLG'S Assurance Instruction. This work was formerly certified under the Audit Commission Act, but is now a separate audit-related service. We agreed the fee for this work at £1,500.

## **7. Legal Implications**

- 7.1 There are no legal implications arising from this report.

**8. Human Resources Implications**

8.1 There are no HR implications arising.

**9. Conclusion**

9.1 The Housing Benefit subsidy claim has been qualified for 5 years and, as a result, Grant Thornton completed additional checking in 2016-17. However, errors made are minimal when considering the considerable workload and, on this occasion, it has made no difference to the Subsidy grant that the DWP pays us. This could change in future years should identified errors result in extrapolated figures meaning we owe the DWP money. We will continue to try to eradicate the errors and remove the HB subsidy claim from qualification in future years.

**10. Background Papers**

None

**11. Appendices**

Appendix 1: GT letter and report