

Reading Borough Council

Audit and Governance Committee Progress Report

April 2017



Audit and Governance Committee
Reading Borough Council
Civic Offices
Bridge Street
Reading
Berkshire
RG1 2LU

5 April 2017

Dear Committee Member

Audit Progress Report

We are pleased to attach our audit progress report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2016/17 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the audit plan or the audit results report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
Executive Director
For and behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

2016/17 Audit

Audit Plan

We presented our 2016/17 updated audit plan to the Audit and Governance Committee in January 2017. We will keep the plan under review and will inform you of any changes to our risk assessments and planned work. Our initial review of the controls confirms our initial assessments and we will take a substantive testing approach.

Meetings and progress to date

We continue to have regular meetings with key officers as part of our ongoing audit process.

These have proved beneficial as these have kept us informed of the financial position of the Council and progress on the issues and recommendations in our 2015/16 Audit Results Report. We had concerns on the progress being made by the Council to improve its financial position and controls and as a consequence issued recommendations under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014 on 2 February 2017.

The Council responded to our recommendations on 13 February 2017. We have agreed with Officers that we would start our follow up of these recommendations in mid-April.

We are in the process of completing our interim work and are reporting our queries and findings on a tracker to Officers on a weekly basis. This enables both Officers and auditors to track progress on issues and queries.

Officers are working on the bank reconciliation but we have not yet been given a version to review. Whilst we acknowledge that the absence of an experienced member of the finance team has caused delays in progressing the bank reconciliation it also highlighted that working papers were not kept on the Councils systems and therefore were not accessible to other Officers of the Council.

The Council have appointed a Chief Executive and an interim Director of Finance to replace the interims whose contracts came to an end in March 2017. We look forward to working with them.

We have had an initial discussion to set up our HB work and are currently considering the response that the Council have made to reduce the number of errors that we found in the 2015/16 claim. We will report progress on the claim as part of our regular meetings with Officers.

Audit and Governance Committee

If members of the Audit and Governance Committee have any particular issues they want to discuss with us we would be pleased to discuss these with you.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Audit and Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	April 2016	Completed
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	Audit Plan	January 2017	Completed
Testing of routine processes and controls	Feb – April 2017	Progress Report	April 2017	Completed
Year-end audit	July - September 2017	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources). Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate.	September 2017	Work is planned to start the week commencing 17 July and aim to complete our audit work by 18 August 2017.
Reporting	October 2017	Annual Audit letter	October 2017	Not yet due
Housing benefit	June - October 2017	Certification of claim	November 2017	Not yet due
Grant claims report	December 2017	Grant claims report	December 2017	Not yet due

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Certification of claims and returns annual report 2015/16

Reading Borough Council

March 2017

Ernst & Young LLP



EY

Building a better
working world

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5 April 2017
Ref: HB1

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Dear Committee Members,

Certification of claims and returns annual report 2015-16 Reading Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Reading Borough Council's 2015-16 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.

Public Sector Audit Appointments Ltd (PSAA) made arrangements for certifying claims and returns in respect of the 2015-16 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.

Context

This has been a time consuming claim to complete due to the large number of errors identified in both 2015-16 and 2014-15; which resulted in the completion of many 40+ workbooks (when errors are found the DWP require that an additional sample of 40 cases is selected for further testing) , we then have to review these on a sample basis. Officers at the Council spent time from June – October completing these workbooks with the help of an external contractor. As a result we have had to spend a substantial amount of time on the claim which has led to an additional cost of £14,404. We plan to work with the Council to find ways to improve the process however as errors are recurring this will take time from both sides. This year the Council has the potential to exceed the upper subsidy threshold (if the DWP choose to claim back overpaid benefits; a response from DWP is pending) which will lead to a reduction in subsidy received and there is a possibility that the DWP may require additional work on areas covered by our qualification letter. We recognise that the Council does have a high case load of over 10,000 active claims at any one time with a high number of claimants in work which creates more complicated calculations and frequent changes of circumstances.

It will take time for the Council to reduce the level of errors, the errors we found in 2015-16 are likely to occur in 2016-17. More details of our findings can be found in section 1 of this report. The Council needs to take urgent action to put in place improved procedures.

We recommend that the Council:

- ▶ undertakes an adequate (minimum 5%) sample checks of claims on a regular basis with greater emphasis on known problem areas;

Response from the Income and Assessment Manager - we have been proactive in taking action for some time to address known problem areas and this has included increased checking of overpayment classifications and providing training to all assessors, in particular on overpayments.

- ▶ report the outcomes of the sample checking to senior management and Members on a regular basis to enable remedial action to be taken if necessary;

Response from the Income and Assessment Manager -We also provide a subsidy highlight report to management each month.

- ▶ remind assessors of the errors found in our Housing Benefit claim work and provide additional training and monitoring of work on a regular basis;

Response from the Income and Assessment Manager - we do feedback to assessors and monitor performance and quality of them. and

- ▶ set improvement targets for bringing down the error rate and reducing the amount of subsidy lost

Response from the Income and Assessment Manager - As a consequence of the actions we have taken we expect an improvement on last year's audit and subsequent loss.

Statement of responsibilities

The 'Statement of responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns', issued by PSAA, 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

We checked and certified the housing benefits subsidy claim with a total value of £78,183,804. We met the submission deadline.

Fees for certification work are summarised in section 2. The fees for 2015-16 are available on the PSAA website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee on 18 April 2017.

Yours faithfully



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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£78,183,804
Amended/Not amended	Amended – amendments made to the claim to adjust for errors identified. The amendment resulted in a £121 reduction to subsidy claimed.
Qualification letter	Yes
Fee – 2015-16	£20,187*

*Original fee subject to scale fee variation

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.

Our testing identified several errors in the calculation and classification of benefits awarded to claimant during the year, as presented in the subsidy claim, the findings are summarised below.

Rent Allowances

Testing of the initial rent allowances sample identified several errors, these have been outlined below:

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 114) rather than local authority error/administrative delay (cell 113). Additional testing of cell 114 was carried out as part of CAKE testing based on 2014-15 errors and the errors identified were extrapolated.

One case where the Authority had incorrectly classified an overpayment as a prior year eligible overpayment (cell 121) rather than prior year local authority error/administrative delay (cell 120). Given the nature of the population and the error found, an additional random sample of 40 cases was selected from a sub-population of cell 121 cases.

One case was identified where benefit has been underpaid due to a rent increase not being applied. However this was not classified as an error for subsidy purposes.

One case was identified which had the incorrect date of birth for a dependant. Although this had no impact on subsidy for the case in question there is potential for an overpayment to be created. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cases including dependants.

One case was identified where benefit has been overpaid due to incorrect water rates being applied to rent and wrong gross rent figure being used. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a subpopulation of all cases including a gross rent balance.

One case was identified where benefit has been overpaid due to incorrect LHA rates being used. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cell 103 cases.

One case was identified where benefit has been overpaid due to a one-off payment of child tax credit not being input. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of Child Tax Credit cases.

One case was identified where benefit has been overpaid due to incorrect NI & Pension figures being input. Additional testing of earned income was carried out as part of CAKE testing based on 2014-15 errors and the errors identified were extrapolated.

One case was identified where benefit has been overpaid due to incorrect start date of claim. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all new cases.

One case was identified where benefit has been underpaid due to claimant holding assessed income figure (AIF) without any Savings Credit. Although this had led to an underpayment of subsidy there is a potential for an overpayment to be created. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cases including AIF.

One case was identified as a failure due to cell 102 standard verification test one being incorrect. The landlord is Berkshire Women's Aid (BWA), which has been classed as a registered provider but in fact should be treated as supported exempt accommodation as BWA is a registered charity providing support to its tenants. As such expenditure should be subject to rent officer referral. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of cell 102 cases.

One case was identified where a Backdate should have been classified as pensioner take-on. Cell 31 was overstated but no impact on expenditure (cell 94 or cell 103). As cell 31 is a nil subsidy cell we have not carried out further testing on this error.

One case was identified where benefit has been overpaid due to non-dependant deduction taking effect from the wrong date. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing from a sub population of all cases with non-dependants.

Non HRA Rent Rebates

Testing of the initial non HRA rent rebate sample identified several errors, these have been outlined below:

One case was identified where benefit has been overpaid due to the last week of extended payment being put through as normal expenditure. There was no impact on the subsidy claimed; therefore no additional 40+ testing was carried out.

Four cases were identified where cell 11 and 27 were understated due to incorrect offsetting of overpayments due to a change of address. As the errors identified do not affect subsidy they have not been classified as an error for subsidy purposes. As this was a recurring issue a procedural change should be put in place to ensure it does not continue.

One case was identified where benefit has been overpaid due to incorrect National Insurance contribution in earnings and one case where benefit has been overpaid due to incorrect calculation of earnings. This has led to an overstatement of benefit within cells 11 and 13. Additional testing of earned income was carried out as part of CAKE testing based on 2014-15 errors and the errors were extrapolated accordingly.

One case where benefit has been overpaid due being assessed without homeless indicator originally and then on amendment was incorrectly classified between cells 12, 13 and 23. Additional testing has been carried out to assess that the split of subsidy between cells 12, 13 and 23 is correct.

One case where benefit has been overpaid due to an error with earnings and self-employed income being incorrectly applied. This had no impact on benefit paid, however as this could

lead to an overstatement error all cases were tested. One additional fail was identified but again this had no impact on subsidy therefore no amendment of the claim form was required.

HRA Rent Rebate

Testing of the initial rent rebate sample identified several errors, these have been outlined below:

One case where cell 67 has been overstated due to incorrect classification of universal credit, the overpayment should have been classified as DWP error (cell 68). All cases with universal credit were checked and the claim form was amended accordingly. Cell 67 was overstated by £277 and cell 63 was understated by £277.

One case was identified where the impact on benefit could not be identified due to earned income being incorrectly calculated. Additional testing of earned income was carried out as part of CAKE testing based on 2014-15 errors and the errors identified were extrapolated.

One case was identified where benefit has been overpaid due to occupational pension being applied from the wrong date. Given the nature of the population and the error found, an additional random sample of 40 cases was selected from a sub-population of occupational pension cases.

One case was identified where benefit has been overpaid due to wrong start date of entitlement. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing.

One case was identified where benefit has been underpaid due to taking a non-dependant deduction from the wrong date. As the error identified does not affect subsidy it has not been classified as an error for subsidy purposes.

One case was identified where benefit has been underpaid due to child tax credit not being removed when it had stopped. As the error identified does not affect subsidy it has not been classified as an error for subsidy purposes.

One case was identified where benefit has been underpaid due to duplication of self-employed income. As the error identified does not affect subsidy it has not been classified as an error for subsidy purposes.

One case was identified where benefit has been overpaid due to incorrect date of birth which means that a child was actually a non-dependant. Given the nature of the population and the error found, an additional random sample of 40 cases was selected for testing using a sub population of cases with dependants.

Modified Schemes

HRA Rent Rebate

Errors were identified in the initial sample of two; these errors were in relation to occupational pension and war disablement pension. We therefore tested the entire population and the claim has been amended.

Rent Allowance

One error was identified in the initial sample of two; this error was in relation to the Comforts Allowance component of War Pension being input as Constant Attendance Allowance. We verified that there were no other cases with Comforts Allowance therefore the claim was amended based on the initial error identified.

2014/15 CAKE Testing

Cell 11 Non-HRA Rent Rebate – Total expenditure (Benefit Granted)

Testing was carried out based on errors identified in 2014/15 which had not been actioned by the Authority, these have been outlined below:

Errors were identified around earned income (mistyping of earnings including tax figures) as such we carried out additional testing from a subpopulation of earned income cases. We also identified similar errors in the 2015-16 initial testing of Non HRA Rent Rebates.

An error was identified due to wrong amount of child tax credit being used, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with child tax credit.

An error was identified due to incorrect occupational pension being used, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with occupational pension.

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 28) rather than local authority error/administrative delay (cell 26). Two cases were also identified which had been incorrectly classified an overpayment as an eligible overpayment (cell 28) rather than technical overpayment (cell 27). As no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cell 28 cases.

One case where the split between the amount above and below the one bedroom self-contained local housing allowance (LHA) rate was incorrectly calculated. A 100% check was completed of all cases with amounts up to and over the LHA cap and this was reviewed by EY therefore we are satisfied that this is not going to be a recurring issue. To confirm this view no issues were identified as part of initial testing in 2015-16.

For all cell 23 cases it was identified that they should have been classified within Rent Rebates (cell 61) as opposed to Non HRA Rent Rebates. The claim form was corrected in 2015-16 and per guidance within Module 1, as the transfer is between two cells with the same subsidy value no additional testing was required.

Cell 55 Rent Rebates – Total expenditure (Benefit Granted)

Input errors were identified around incorrect birth dates, this impacted on the classification of dependants and non-dependants, and however no errors were identified in prior year 40+ testing. As this was a typing error no specific training could be carried out to address this issue however a similar issue has arisen in 15-16 therefore additional testing was been carried out.

Errors were identified around earned income (payslips being received but not input, wages input as monthly instead of 4-weekly, tax refund input as tax paid and wrong amount of earnings used) as such we carried out additional testing from a subpopulation of earned income cases. We also identified similar errors in the 2015-16 initial testing of Rent Rebates.

An error was identified around savings credit being removed from the wrong date, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with Savings Credit.

An error was identified due to the wrong amount of Job Seekers Allowance (JSA) (contribution based) being input, as no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cases with JSA (contribution based).

An error was identified due to Premium bonds not input which would have increased tariff income, as no action was taken by the authority to rectify this issue additional testing was carried out.

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 67) rather than local authority error/administrative delay (cell 65). As no action was taken by the Authority to rectify this issue additional testing was carried out based on a subpopulation of cell 67 cases.

Errors were identified due to no/ incorrect uprating of Benefit income codes. Based on our Module 2 testing no issues were noted with regard to uprating of benefits. We were able to target our testing based on the specific issue identified in 2014-15; the relevant income codes were Bereavement Allowance, Guardian's Allowance, and Incapacity Benefit; as such the uprating was checked for these remaining cases. As there were 40 claims all have been checked and the claim has been amended accordingly.

Cell 094: Rent Allowance – Total expenditure (Benefit Granted)

Errors were identified around earned income (wrong amount of earnings used, payslips missed, wrong periods) as such we carried out additional testing from a subpopulation of earned income cases. We also identified similar errors in the 2015-16 initial testing of Rent Allowances.

An error was identified due to incorrect self-employed income being used and NI not being calculated correctly, as no action was taken by the Authority to rectify this issue additional testing was carried out based on a subpopulation of cases with self-employed income. One case was identified where the impact cannot be determined as the required information was not kept for the full retention period of 6 years and was deleted after 6 months.

One case where DLA ceased but was not removed from the claim; however as the claim form was amended no additional CAKE testing was required in 2015-16.

One case where the Authority had incorrectly classified an overpayment as an eligible overpayment (cell 114) rather than local authority error/administrative delay (cell 113). As no action was taken by the authority to rectify this issue additional testing was carried out based on a subpopulation of cell 114 cases. This issue was also identified as part of initial testing.

Errors were identified due to no or incorrect uprating of Benefit income codes. Based on our Module 2 testing no issues were noted with regard to uprating of benefits. We were able to target our testing based on the specific issue identified in 2014-15; the relevant income codes were Bereavement Allowance, Guardian's Allowance, Incapacity Benefit; as such the uprating was checked for these remaining cases. As there were 40 claims all have been checked and the claim has been amended accordingly.

We have reported these observations to the DWP in a qualification letter.

2. 2015-16 certification fees

Public Sector Audit Appointments (PSAA) determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the PSAA in April 2015 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2014-15	2015-16	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	16,610	20,187	34,591*

*Additional fee subject to approval by PSAA.

3. 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 £12,458. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2016-17.

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 will inform the Director of Finance and Resources before seeking any such variation.

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