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Our ref

Contact

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Dear Jon

Gloucester City Council - Certification of claims and returns - annual report 2016/17

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2016/17.

In 2016/17 we carried out certification work on only one grant claim, the Housing Benefit Subsidy claim. The certified value of the claim was £43.6 million, and we completed our work and certified the claim on 30 November 2017.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work identified a number of errors which required additional sample testing to be performed, and as such we certified the claim with qualifications. There were four qualifications in total which are summarised below:

1) Failure to submit RBV policy for approval by Members

In our qualification letter last year in relation to the Council's previous (2015/16) Housing Benefit subsidy claim, we reported that, contrary to the requirements of Housing Benefit and Council Tax Benefit Circular S11-2011, there was no evidence that the Authority had submitted its Risk Based Verification (RBV) policy for formal Members' approval and sign-off along with a covering report confirming the Section 151 Officer's agreement / recommendation.

In response to the identification of this issue, the Authority's RBV policy was approved subsequently at the Cabinet meeting on 7th December 2016. The timing of this approval meant that until this date the Council had operated without a formally approved RBV policy in line with the requirements of Circular S11-2011. The policy that was approved was based on a document that had been in use for the 2015/16 financial year and during 2016 up to the time of the Cabinet meeting.

As an approved RBV policy was not in place for the whole of the 2016/17 financial year, we were obliged to again report this issue as a qualification in relation to the 2016/17 subsidy claim.

2) Misclassification of rent rebate overpayments

As a result of misclassification errors identified in previous financial periods, a random additional sample of 40 overpayments was selected for specific consideration of the classification of the overpayments. This classification is important as the amount of subsidy the Authority receives from DWP depends on how an overpayment has been recorded.

Testing of these 40 cases and our initial sample identified eight cases where the dates had been incorrectly applied and part of the overpayment should have been classified as local authority error overpayments, instead of different overpayments categories which are eligible for subsidy.

The total error across these eight cases amounted to £1,983 of subsidy eligible overpayments which should have been classified as local authority errors, which represents an 18.5% error rate based on our total sample size.

3) Misclassification of rent allowance overpayments

During our testing we also identified similar errors to the qualification above in relation to the classification of rent allowance overpayments.

Our testing identified five cases where the dates had been incorrectly applied and part of the overpayment should have been classified as local authority error overpayments, instead of different subsidy eligible overpayment categories.

The total error across these five cases amounted to £277 of subsidy eligible overpayments which should have been classified as local authority errors, which represents a 1.9% error rate based on our total sample size.

4) Rent rebate complex case issue

In addition to the above qualifications, we reported one individual non-HRA rent rebate benefit case picked for testing where the level of complexity was such that the Authority was unable initially to fully reconcile the transactions recorded in the detailed reports produced by its Housing Benefits system, which are used to compile the subsidy claim form, to those showing on the claimant's records in the system itself.

Although the Authority believes it has now resolved this inconsistency, this was not in time for the deadline for reporting to DWP. We therefore reported to DWP that we were unable to conclude our testing on this case (value £2,034.32) before the reporting deadline. This may result in DWP requesting further work by the Authority and an additional report from KPMG regarding this case.

The circumstances behind this particular qualification are highly unusual. The issues initially arose because of the high degree of complexity involved with this case, but are also related to a software issue affecting the reports used to compile the subsidy claim form or the way in which the Council has used and interpreted the information within those reports when compiling the claim. We have therefore included a recommendation in Appendix 1 on the need to explore and resolve this matter with the software provider.

Summary

As a result of the errors identified in our initial testing, we were required to perform additional testing which amounted to 40 additional cases across all cells. This was further to our initial sample of 60 cases plus 80 additional cases carried out because of qualification issues reporting in 2015/16. In addition, it should be noted that as the Council transferred its housing stock to Gloucester City Homes as at 16 March 2015, all 20 rent rebates cases tested this year related to adjustments from historic claims which were more complex in nature, increasing the amount of time required for testing and the risk of error.

The qualifications were reported to DWP without amendment to the grant claim, but instead with extrapolated error statistics where relevant in order for the Department to consider whether any adjustment or further work is required. The total extrapolation of overpayments found in issues 2 and 3 was:

- a £9,647 extrapolated error within cell 28 (non-HRA rent rebate eligible overpayments) across a cell value of £52,061; and
- A £19,819 extrapolated error within cell 114 (rent allowance eligible overpayments) across a cell value of £1,038,079.

Consequently we have made one recommendation to the Council to improve its overpayment categorisation process.

In our 2015/16 Certification Annual Report we raised three recommendations relating to appropriate verification of RBV case evidence, RBV assessment system downtime and appropriate classification of overpayments. Full details are included in Appendix 2.

2015/16 follow-up

Since our last annual report issued in January 2017 which related to the 2015/16 Housing Benefit Subsidy claim, DWP has requested that we perform further work and reporting.

This related to:

- 1) Confirmation that the RBV policy had been appropriately approved by members since our November 2016 qualification;
- 2) Estimation of the potential impact due to the RBV system downtime issue which resulted in claims being treated as medium by default; and
- 3) Extrapolation of the potential impact of the RBV case missing evidence errors, as the Authority had since been able to establish an appropriate population for additional 40+ testing and an extrapolation could be performed. As per the HBCOUNT testing methodology, all three claims with missing evidence were treated initially as 100% errors.

We reported on these findings in June 2017.

Further to this, the Authority agreed with DWP that the errors reported and extrapolated for RBV case missing evidence errors could be adjusted if the Authority could obtain retrospective evidence from the claimants (e.g. ID checks, bank statements) and could evidence to us that the actual benefit paid would not have been 100% incorrect had the evidence been checked appropriately at the time of the RBV check. In November

2017, evidence had been obtained for two of the three cases and the Authority asked us to report on this basis as they did not anticipate at the time being able to obtain the evidence for the third claim.

Following this third report to DWP, the Authority asked us to issue one final report as the evidence was ultimately obtained for the final RBV claim. This report was issued on 19 December 2017 and reported a final error of £63.70 and extrapolated errors of £nil (Non-HRA rent rebates) and £2,562 (rent allowances), which compare to extrapolated errors of £11,406 and £76,414 which were originally reported to DWP based on 100% errors within the three cases.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2016/17 of £7,043. Our actual fee is likely to be £3,975 higher than the indicative fee (which is based on a sample of 60 claims) as a result of the additional testing as outlined above; this is still subject to determination by PSAA and therefore not final at this stage. This fee is likely to increase if further additional work is requested by DWP.

This compares to our latest 2015/16 fee for this claim of £13,703, which includes an additional fee variation of £1,840 raised since our 2015-16 Annual Report as a result of additional work requested by DWP over the reported qualifications.

The final fee for 2015/16 is likely to be £1,063 higher as a result of further work performed over missing RBV case evidence during November and December 2017 as set out above. This final £1,063 fee variation is subject to determination by PSAA.

Yours sincerely



Darren Gilbert
Director, KPMG LLP

Appendix 1 – 2016/17 Certification of Claims and Returns Action Plan

Priority rating for recommendations		
<p>❶ Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>❷ Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>❸ Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

Number	Issue	Recommendation	Priority	Comment/Responsible officer/Due date
1	<p>Misclassification of overpayments</p> <p>During our work we identified a number of overpayments erroneously classified as claimant error rather than Local Authority error, which has an impact on the amount of subsidy claimed. This issue has now been recurring for the last three years as a qualification issue and results in significant additional sample testing and potential challenge by DWP.</p>	Analyse how these individual errors occurred in order to consider any controls or training that could reduce this risk and ensure that quality assurance testing has sufficient focus in this area.	❶	

Number	Issue	Recommendation	Priority	Comment/Responsible officer/Due date
2	<p>Complex case issue</p> <p>Our testing identified one individual non-HRA rent allowance benefit case picked for testing where the level of complexity was such that the Authority was unable initially to fully reconcile the transactions recorded in the detailed reports produced by its Housing Benefits system, which are used to compile the subsidy claim form, to those showing on the claimant's records on the system itself.</p> <p>Although the Authority believes it has now resolved this inconsistency, this was not in time for the deadline for reporting to DWP. We therefore reported to DWP that we were unable to conclude our testing on this case (value £2,034.32) before the reporting deadline. This may result in DWP requesting further work by the Authority and an additional report from KPMG regarding this case.</p>	<p>The circumstances behind this particular qualification are highly unusual. The issues initially arose because of the high degree of complexity involved with this case, but are also related to a software issue affecting the reports used to compile the subsidy claim form or the way in which the Council has used and interpreted the information within those reports when compiling the claim.</p> <p>The Authority should continue to investigate these issues to resolve the software issue with Civica and ensure that the individual case has been fully reconciled back to weekly entitlement calculations and supporting evidence in case further work is requested by DWP on the case.</p>	1	

Appendix 2 – Follow up of 2015/16 Certification of Claims and Returns Recommendations

Number	Prior year recommendation	Priority	Status as at January 2018	Management comments
1	<p>There were a number of Risk Based Verification (RBV) cases tested where evidence had not been checked or retained in accordance with the RBV policy.</p> <p>Review and reinforce the guidance to staff regarding RBV policy to ensure that documentation is checked and retained appropriately and ensure quality assurance testing has sufficient focus in this area.</p>	2	<p>No such errors were identified during our testing on the 2016/17 claim.</p>	
2	<p>There were periods during the year when the Civica RBV assessment software was not functioning appropriately so RBV classification did not work. This results in a risk of incorrect RBV categorisation.</p> <p>Investigate the reasons for this downtime and resolve it as soon as possible.</p> <p>Consider establishing a formal procedure/policy for when RBV system is not</p>	2	<p>No downtime errors were identified in our sample testing on the 2016/17 claim</p> <p>The Authority has informed us that there has been no significant downtime during 2016/17, and in addition, we have performed high level data analytic testing which has not identified any significant downtime issues.</p>	

Number	Prior year recommendation	Priority	Status as at January 2018	Management comments
	functioning e.g. applying 'non-RBV' verification checks.			
3	<p>A number of cases tested had specific overpayment or underpayment errors as a result of incorrect rent liabilities being input, deductions being applied incorrectly, manual adjustments being applied incorrectly or overpayments being incorrectly classified.</p> <p>Analyse how these individual errors occurred in order to consider any controls or training that could reduce this risk and ensure that quality assurance testing has sufficient focus in this area.</p>	<p>②</p>	<p>This is a recurring issue during 2016/17 and has now been an issue requiring qualification for three years.</p> <p>The issue remains open.</p>	

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointments's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.