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Our ref dg/cs

12 January 2017

Gloucester City Council - Certification of claims and returns - annual report 2015/16

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 2015/16.

In 2015/16 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £44.3 million, and we completed our work and certified the claim on 30 November 2016.

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 and as such we certified the claim with qualifications. There were six qualifications in total which are summarised below:

1) Failure to submit RBV policy for approval by Members

The Authority assesses a proportion of its claims under a Risk Based Verification policy (RBV).

Risk Based Verification is applicable where one of the following circumstances have been met:

- (i) New Claims.
- (ii) Claimants who have newly moved into the Gloucester area.
- (iii) Where there has been a significant break between the previous and current claim.

Our testing identified that, contrary to the requirements of Housing Benefit and Council Tax Benefit Circular S11-2011, the RBV policy had not been submitted for formal Members' approval and sign-off along with a covering report confirming the Section 151 Officer's agreement/recommendation.

The Authority has already addressed this issue by taking the report to members at the Cabinet meeting on 7 December 2016.

2) Failure to apply the RBV Policy in three sampled cases

Our testing identified 3 cases across our initial and additional samples (amounting to £3,209 in total) which had not been verified to evidence required by the RBV policy or where supporting evidence had not been retained; in one case the identity had not been verified in accordance with the policy, and in the two other cases the Council could not provide any evidence that capital had been verified. Due to the nature of the issue, we were unable to quantify the impact of the error.

3) Benefit Software Risk Based Classification Issue

The Authority encountered issues during certain periods in the 2015/16 financial year whereby the Civica system was unable to provide a risk rating under the RBV approach (which dictates the level of verification required) for cases where RBV was required. During the system classification failure, the Authority automatically classified claims as medium risk and requested the documents in accordance with that risk level per the RBV policy.

As such, at the time of this system failure, claims that should have been classified as high risk would be classified as medium risk instead. Due to the nature of the issue, we were unable to quantify the cases affected and the impact of the error.

4) Overpaid benefit due to incorrect recording of weekly rent liability

Testing of our rent rebates initial and extended samples identified 3 cases where the benefit had been overpaid as a result of the Authority incorrectly recording the weekly rent liability, resulting in a total overpayment of £214 across all 3 cases.

5) Underpaid benefit due to incorrect deductions and adjustments

Testing of the initial rent rebates and rent allowances samples identified 3 cases where benefit had been underpaid. In two cases, this was due to the Authority incorrectly including a deduction in the benefit calculation. The other underpayment was due to an incorrect manual adjustment being made to reduce a current year underpayment with a prior year claimed underpayment.

As there is no eligibility to subsidy for benefit which has not been paid, the 3 underpayments identified do not affect subsidy in the 2015/16 return and have not, therefore, been classified as errors for subsidy purposes. They were, however, reported to DWP as a qualification, as required.

6) Misclassification of overpayments

As a result of similar misclassification errors identified in 2014/15, a random 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 identified:

- 2 cases where the dates had been incorrectly applied and part of the overpayment should have been classified as local authority error overpayments, instead of subsidy eligible overpayments.
- 1 case where the date had been incorrectly applied and the total overpayment should have been classified as local authority error overpayments instead of subsidy eligible overpayments.

The total error across these three cases amounted to £644 of subsidy eligible overpayment which should have been classified as local authority errors.

Summary

As a result of the errors identified in our initial testing, we were required to perform additional testing which amounted to 80 additional cases across all cells. This was further to our initial sample of 60 cases plus 40 additional cases carried out because of the prior year area documented in point 6 above. 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 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 4 and 6 was a £3,320 extrapolated error across a combined population of £54,955. It should be noted that we were unable to extrapolate the impact of the three issues relating to Risk Based Verification because of the nature of the errors and the inability to isolate the total population of claims to which RBV should apply.

We have made three recommendations to the Council reflecting the results of this year's work to improve its benefits administration process as set out in Appendix 1.

There were no formal recommendations made last year and all but one of the issues noted this year are newly identified during the 2015/16 audit (issue 6 relating the misclassification of overpayments was also identified during 2014/15).

There are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2015/16 of £8,523. Our actual fee is likely to be £3,340 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 compares to the 2014/15 fee for this claim of £9,390.

Yours sincerely

Darren Gilbert
Director, KPMG LLP

Appendix 1 – 2015/16 Certification of Claims and Returns Action Plan

Priority rating for recommendations		
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.	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.	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.

Number	Issue	Recommendation	Priority	Comment/Responsible officer/Due date
1	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.	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.	❷	Agreed. Original and reviewed RBV policy has been resolved at Cabinet 7 th December 2016 and is in place. Additional guidance for evidence required has been provided to staff and will be monitored regularly via 10% checking of claims. Stacey Jellyman, Senior Client Officer.

2	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.	Investigate the reasons for this downtime and resolve it as soon as possible. Consider establishing a formal procedure/policy for when RBV system is not functioning e.g. applying 'non-RBV' verification checks	②	Agreed. All issues with software are recorded and repeat errors can be identified and investigated. A clause of the RBV policy in place now confirms action when RBV software is unavailable. Stacey Jellyman, Senior Client Officer
3	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.	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.	②	Agreed. Training has been provided to all staff on overpayment subsidy classification on 15th November 2016. The errors around rent liabilities and deduction input errors are being monitored regularly via 10% checking. Stacey Jellyman, Senior Client Officer