

Housing Benefit Subsidy Claims – Local Authority Best Practice Guide

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Introduction

1. In subsidy circular **HB S4/2014**, the Department for Work and Pensions (DWP) announced its intention to take steps, in collaboration with local authorities (LAs), to address the high level of qualification letters issued on LA Housing Benefit (HB) subsidy claims. In 2012/13, 77% of HB subsidy claims were qualified. Accordingly, from September 2014 to February 2015, ten HB subsidy workshops were held to promote greater understanding of what can be done to reduce the number of qualifications. In conjunction with these workshops, the Department also visited four LAs which had recurrent qualifications or had been successful in resolving recurrent qualifications to find out more about LA planning for addressing qualifications. In light of the success of the workshops and the visits, it is planned that both will continue in 2015/16.
2. On average, each workshop was attended by twenty-one delegates. The agenda and format for all ten workshops was the same to ensure consistency of content. The emphasis in the workshops was on discussion of all relevant issues and maximum participation from delegates. The workshops lasted half a day and consisted of three main sessions:
 - an overview of the responsibilities of DWP, LAs and the external audit organisations;
 - presentation and open discussions of the main qualification issues; and
 - the future of certification.

Apart from the first workshop, a representative of the external audit organisations attended to answer questions and provide further information on audit-related matters.

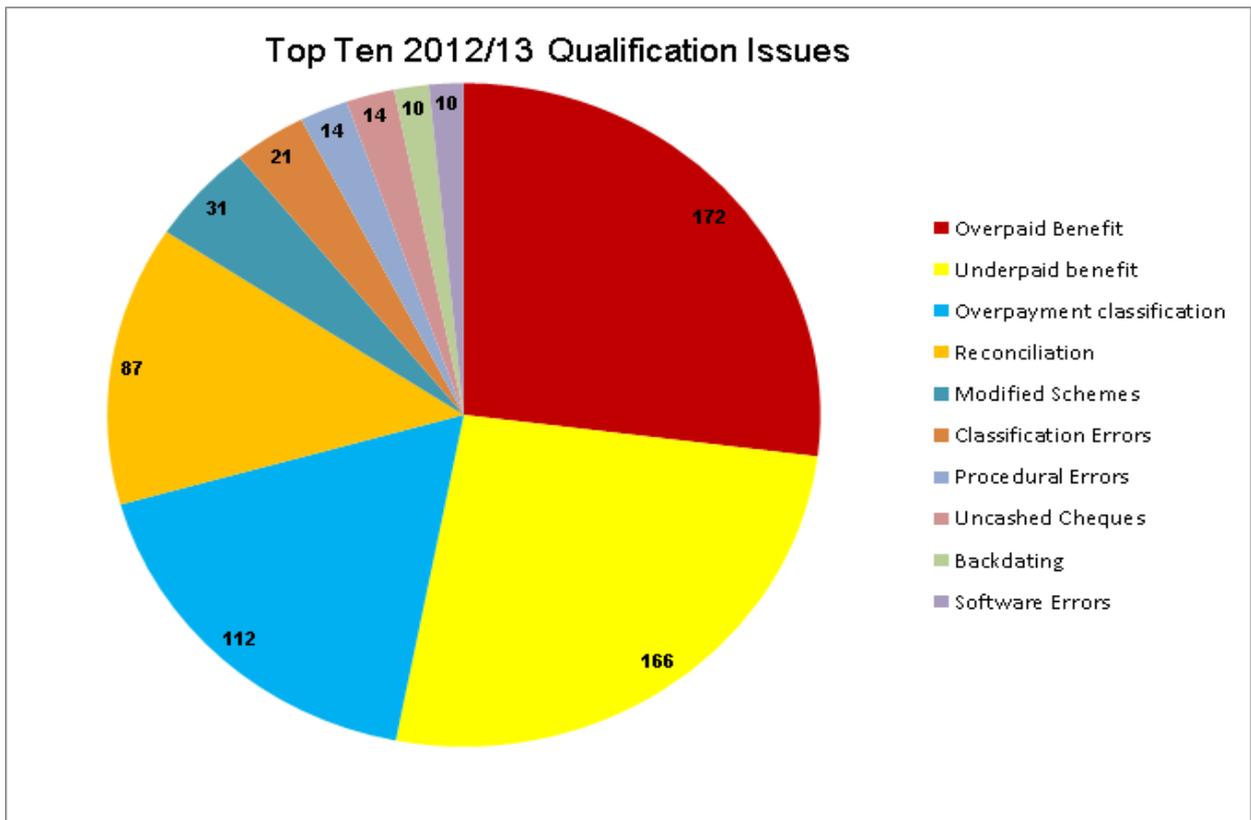
3. Whilst the purpose of the workshops was to identify best practice and thus reduce the number of subsidy claims being qualified, LAs, as anticipated, raised issues regarding the auditor certification approach to subsidy claims. The Department will take these issues forward as part of a comprehensive response to the workshops. The resolution of these issues will be notified to LAs as soon as possible; it is hoped that all issues will be resolved by the time the next round of workshops takes place later in 2015 (tentatively planned for the autumn).
4. This Guide, as promised at the workshops, provides information on the best practice identified in the workshops and the LA visits.

Background

5. It is clear from auditors' qualification letters that in order to complete fairly stated subsidy claims in accordance with the relevant terms and conditions and help reduce subsidy loss, effective management and checking arrangements should

be in place to ensure that errors leading to qualifications can be minimised and, when they do occur, that overpayments are correctly classified and calculated.

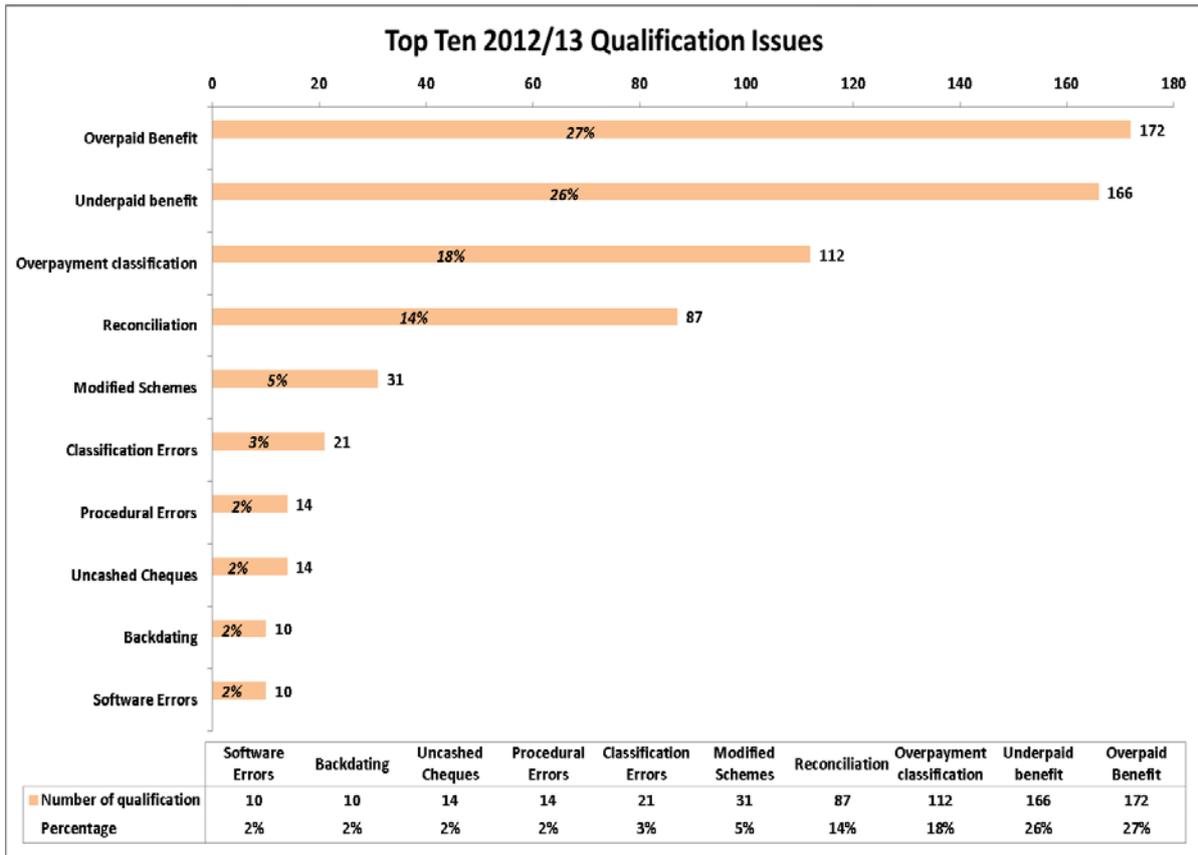
- Auditors reported 292 qualified claims in 2012/13 in respect of 380 LAs compared to 280 in 2009/10. The two main reasons for qualification were overpaid and underpaid HB. The top ten areas where most errors were identified are shown in the table below.



Top Ten 2012/13 Qualification Issues

	Number of qualification	Percentage
Overpaid Benefit	172	27%
Underpaid benefit	166	26%
Overpayment classification	112	18%
Reconciliation	87	14%
Modified Schemes	31	5%
Classification Errors	21	3%
Procedural Errors	14	2%
Uncashed Cheques	14	2%
Backdating	10	2%
Software Errors	10	2%
Total	637	100%

(Note: Percentages sum to more than 100 due to roundings.)



7. The best practice identified in the workshops and visits and the certification issues raised are presented as follows:

- Best Practice – Individual Qualification Types
- Best Practice - General
- Q&A on Certification Arrangements for Subsidy Claims

8. Additionally, there are three Annexes as follows:

- Annex A – further examples of best practice provided separately by the external audit organisations
- Annex B – a copy of the agenda used for the workshops
- Annex C – a small selection of the feedback (verbatim) from the workshops.

Best Practice – Individual Qualification Types

1. Overpayment Misclassification

- Automating the overpayment classification process helps to avoid misclassification but is dependent on an appropriate system specification. If software incorrectly splits overpayments, LAs should identify and correct the overpayments affected clerically.
- Overpayment misclassification is largely due to human error, increasing the importance of checking and training.
- Targeted monitoring and quality assurance checking is beneficial. Experience has shown that LAs which have a continuing focus on quality assurance checking of overpayments are not qualified due to overpayment misclassification.
- Checks undertaken by an LA's dedicated overpayments checking team provide the auditor with information on the range of overpayments errors identified internally and thereby help to confirm that some errors identified by audit are isolated instances, thus avoiding qualification and extrapolation.
- Feedback to caseworkers regarding classification errors is important.
- Most overpayment classification errors occur on cases in which an overpayment is classified as LA error for part of the period and eligible error for the remainder. The LA runs a scan of all overpayments which have a single classification only, and checks that this is correct, thereby identifying and correcting classification errors prior to the compilation of the subsidy claim and avoiding qualification.
- A desk aid/template/control sheet helps to promote correct classifications.
- Some LAs undertake additional checking of overpayments, complete a post-audit review and review procedures. Lessons learnt are passed onto assessors in order to reduce errors.
- The LA checks all overpayments over £500 so as to ensure that all larger overpayments are correct (as overpayments over £500 account for over 90% of the total value of overpayments, this check gives a good level of assurance).
- Daily reports show all overpayments generated the previous day; random checks are undertaken from the daily report.

2. Reconciliation

- LAs undertaking manual adjustments should retain supporting information for certification purposes in order to explain non-reconciling items and thus avoid qualification.
- Some HB systems reconcile benefit granted and paid in a way which requires LA action to complete the reconciliation, e.g. by bringing off-system adjustments to account, thus emphasising the importance of maintaining a full audit trail.
- Some LAs undertake reconciliation of benefit granted to benefit paid on a monthly basis and resolve issues as they arise, thus making the full year reconciliation more straightforward and reducing the likelihood of qualification.

3. Modified Schemes

- Checking of relevant War Pension and equivalent income codes is important because qualification often results from incorrect coding.
- Visiting claimants is the best way to obtain information.
- Simplifying Modified Schemes helps to avoid error.
- Given the relatively low Modified Scheme caseload, many LAs check all Modified Schemes cases and amend any errors.

4. Overpaid/Underpaid Benefits

- Decisions on cases, e.g. the calculation of income used in assessments, need to be clearly recorded on the processing system 'claim notes' facility or by use of proformas so that the auditor has a clear audit trail explaining the outcome. This should extend to all decision-making, e.g. calculation of the rent or capital where the claim details are out of the ordinary.

Best Practice – General

Auditor Certification

- ✓ Obtain a copy of the Audit Commission's HB COUNT Guidance Module 1, which sets out the testing and extrapolation approach. (Auditors should provide this on request but in the event of difficulties, the DWP should be contacted.)
- ✓ Some LAs have found benefit (in terms of reducing the time and resources required by audit) from greater integration of work between external auditors and local authority internal auditors.
- ✓ Internal checking should be recorded for the auditor's information. This may result in reducing the auditor's checking requirement and, in the event of more extensive internal checking, help in demonstrating that errors identified by the auditor are isolated in nature.
- ✓ Following the auditor's identification of error in the initial sample, the additional sample should target the case type in which error was identified rather than being a random sample of all case types: this will provide a more representative and proportionate extrapolation. A targeted additional sample is, however, dependent on LA IT systems/records being able to identify sub-populations of case types.
- ✓ If LAs have reservations regarding qualifications, the extent of work requested by the auditor or extrapolations, they should raise issues with their auditor in the first instance; if necessary, with the external audit organisation thereafter; and if necessary, with the DWP thereafter.
- ✓ LAs should themselves make an assessment of the subsidy implications of qualifications so that they are fully aware at the outset of the amount of overpaid subsidy and any impact on LA error subsidy.
- ✓ Implement an action plan based on the auditor's findings.

LA checking/training/targeting of error

- ✓ Some LAs undertake a review of the subsidy claim in advance of certification, identifying errors and amending the claim (with a supporting audit trail), thus helping to avoid qualification.
- ✓ Having staff dedicated to a particular part of the caseload, e.g. the self-employed, helps to reduce error. It is accepted that this is not always possible in smaller LAs.
- ✓ LAs should ensure that effective arrangements are in place to review subsidy claims to identify areas for potential improvement. This may include the identification of areas where staff training would be beneficial, proactive monitoring of workloads, and areas requiring additional quality review checks

and/or intervention activity. Examples of targeted areas for checking/training are: bed and breakfast; earnings; and modified schemes.

- ✓ Analyse errors for trends, with additional training being targeted at individuals or all assessors as appropriate.
- ✓ Initial and refresher training can include a subsidy module, thus promoting awareness of subsidy issues and the impact of errors on the subsidy claim.
- ✓ Weekly notes can be issued to assessors to highlight errors and the resultant impact on subsidy.
- ✓ Each assessor should receive individual feedback on accuracy.
- ✓ Personal development/training plans should take account of errors.

Other

- ✓ LAs should seek guidance from the DWP/internal and/or external audit regarding proposed individual LA procedural changes which they believe may lead to qualification and retain associated documentation.
- ✓ Whilst DIP systems can generate difficulties because they give a partial representation of the case in question, they can work much better if caseworkers have two or even three screens (though some workshop attendees felt that more than one screen causes confusion).
- ✓ In order to expedite settlement of final subsidy claims, it was suggested that if there was no intention to submit mitigation, the DWP should be informed at the time the qualification letter is issued and advised to move to recovery decision at the earliest opportunity without requesting mitigation.

Q&A on Certification Arrangements for Subsidy Claims

The questions below were raised at the various workshops.

Q1: Can there be a de minimis or tolerance level for errors?

A: There is merit in this suggestion but it should be noted that even immaterial errors can have a material impact on subsidy via LA error subsidy thresholds, with an impact on public funds. Notwithstanding this, DWP will consider the introduction of a de minimis/tolerance level and seek the views of external audit organisations and the National Audit Office.

Q2: Does DWP require auditors to qualify rather than amend claims? (Some LAs have been informed by auditors that DWP insists on qualification in all instances.)

A: DWP confirms that it does not insist on qualification rather than claim amendment. DWP will consider further the guidance applying to claim amendment and liaise with external audit organisations as necessary. (**Note:** Claims can only be amended without qualification if the auditor is satisfied that the requirements of the audit certificate are met.)

Q3: Could the submission deadline for pre-audit claims be 31 May rather than 30 April so as to assist in the accurate compilation of subsidy claims?

A: The 30 April deadline is a cross-central government accounting deadline and not a DWP initiative. For this reason the deadline cannot be moved.

Q4: Will DWP publish examples of acceptable alternative evidence when original claim forms are unavailable / missing?

A: Appropriate guidance will be issued.

Q5: Why is additional testing and extrapolation required when errors do not affect subsidy, e.g. certain misclassifications and backdating errors?

A: DWP will consider changes to the certification approach when errors identified in initial sampling do not affect subsidy. This will involve liaison with DWP forecasters (who have an interest in statistical – non subsidy-related – parts of the final subsidy claim form) and external audit organisations and the National Audit Office (in order to confirm that the overall assurance provided by the certification arrangements is not compromised).

Q6: Will DWP provide improved guidance on complex earnings issues, e.g. salary sacrifice, zero hours contracts, use of payslips for irregular working hours, etc.?

A: There is a variety of employer flexible working models and it would be impossible to capture all employer contract scenarios in guidance to such a level of detail. The

regulations require LAs to arrive at an estimate of the claimant's average weekly earnings: as this is equally applicable to models such as zero hour contracts, current guidance should suffice.

Q7: Is qualification necessary when in-year reconciliation failures on the final subsidy claim are due solely to roundings between HB system outturn reports and the entries made on the claim form?

A: It has been agreed that with effect from the next auditor guidance to be produced (2015/16), auditors will be instructed not to qualify claims when in-year reconciliation failures on the final subsidy claim are due solely to roundings between HB system outturn reports and the entries made on the claim form.

Q8: What should LAs do when experiencing difficulty liaising with auditors due to competing audit requirements?

A: The Audit Commission has advised that in these circumstances LAs should ask their Finance Directors/Responsible Finance Officers to liaise with the audit engagement lead and if this does not produce an improvement, email the external audit organisation.

Q9: Can DWP identify software systems which promote overpayment misclassification/reconciliation failures and pursue with the provider and the external audit organisations?

A: DWP will identify software-related qualification issues and raise these via the DWP/software suppliers' forum.

Q10: Can DWP assist LAs to obtain prompt responses from the Veterans Agency?

A: DWP will approach the Veterans Agency to try to resolve issues.

Q11: Why, when the claim has been amended, do auditors sometimes insist on qualifying the claim as well?

A: It should be noted that there may be instances when there is a legitimate reason for the auditor to raise a qualification, e.g. due to circumstances pertaining to the error/control environment or where the requirements of the audit certificate have not been met by the amendment. Notwithstanding this, the Department will discuss this matter with the external audit organisations as to how best to deal with this issue.

Q12: Can LA representatives be involved in considering certification arrangements post-Audit Commission?

A: The DWP will broach this subject with the Audit Commission and inform LAs in due course. The Department will, of course, keep the Local Authority Associations Steering Group appraised of all developments.

Q13: Why do some auditors qualify claims when LAs do not uprate benefits on their sys because they do not have related cases, e.g. polygamous marriages?

A: Regarding uprating, it is not the case that auditors are necessarily wrong to qualify, e.g. an LA may not be able to satisfy the auditor that there are no related cases. If an LA does not agree with the position taken by the auditor, they should raise this issue with the external audit organisation. The Department will raise this matter with the external audit organisations to ensure consistent advice is given.

Q14: Do external audit organisations quality review qualification letters to ensure consistency with guidance?

A: We understand that the external audit organisations do carry out quality reviews ensuring consistency. However, as this was a concern raised at a number of the workshops, we will raise this issue with the external audit organisations seeking further clarity.

Q15: Will the DWP consider classifying qualified claims according to their severity and informing each LA of its classification (for internal LA purposes)?

A: DWP will consider this request and liaise with LA representatives as necessary.

Next steps

Due to popular demand, the Department will be running more workshops in future. We will ensure that any agenda agreed will be informed by the concerns facing LAs as well as the Department and the external audit organisations. If you would like to shape the future agenda of subsequent subsidy workshops, please send your ideas to the email address below:

hbsubsidy.queries@dwp.gsi.gov.uk

Annex A – Best practice identified by external audit organisations

Control environment

1. In order to help reduce subsidy loss, LAs should ensure that effective management arrangements are in place to help minimise processing errors, overpayments and administrative delays and, where overpayments have occurred, they are correctly classified and calculated.
2. LAs should ensure effective, risk-based accuracy checking processes and appropriate training are in place to help minimise errors in the accurate calculation of benefit including overpayments and to ensure expenditure is correctly recorded for subsidy. Results of accuracy checking should be analysed and relevant actions taken to address areas of weakness.
3. The annual subsidy claim should be reviewed prior to submission to the DWP and auditors for certification.
4. LAs should ensure DWP guidance on the completion of subsidy claim forms is reviewed annually and action taken to ensure subsidy claims are completed in accordance with the guidance.
5. Subsidy claims should be supported by adequate working papers, including, where applicable, non-financial records, which:
 - a. satisfy the statutory requirement on the responsible finance officer of an LA to maintain adequate records in relation to claims
 - b. document the basis of the claim or return and the derivation of the information it contains; and
 - c. are kept in a form that will help the appointed auditor and keep certification time and, therefore, the cost to the authority to a minimum.
6. Where these responsibilities are fully discharged it is more likely that the auditor will be able to conclude that reliance can be placed on the control environment and so be able to limit the certification work required.
7. LAs should ensure there is detailed guidance on the application of Regulations and use of the computer system; integrate and consolidate this guidance into desk manuals or other guidance; have clear responsibilities for amending and updating instructions, e.g. when legislation changes or the computer system is altered; issue appropriate guidance when checking reveals problems and errors; link guidance to job descriptions and training.

Updating

8. LAs should ensure that parameters within the HB system are accurate and agree to all updating information provided by the DWP in its circulars. When parameters are updated, independent checks should be carried out to ensure that the update is accurate.

Overpayments

9. LAs should have arrangements in place to monitor overpayment levels on an on-going basis in order to avoid subsidy loss where possible.
10. LAs should check benefit records and ensure that large sums of overpaid benefit are not held 'in suspense', awaiting classification for subsidy or recovery purposes.

Reconciliations

11. LAs should ensure that regular reconciliations are completed according to the software suppliers' guidance and ensure that any issues identified are investigated and rectified.

Audit

12. Collaborative working between internal and external audit ensures that verification of HB claims is done in a timely, easy and efficient fashion. In one instance, the LA's internal audit section has worked collaboratively with its external auditor for the last two years undertaking the verification of HB claims. This arrangement arose as it was felt that a joint approach in the testing would provide assurance to both bodies whilst reducing the burden to the HB Section of having internal and external audit in separately and undertaking very similar testing or asking very similar questions.
13. The internal audit section provides one auditor for two to three weeks to work alongside the external auditor. The benefits are shared knowledge and skills; reduced time needed for auditors' testing (and a reduction in the audit fee); financial savings; and greater convenience for staff in the HB Section. If other issues arise during the year, internal audit would plan to undertake further independent work in this area.

Backdating

14. LAs should ensure that there is clear guidance on the definition of "good cause" and should monitor the number and value of backdated awards.

Rent Officer Arrangements

15. LAs should monitor the number and value of payments based on eligible rents above the Rent Officer figure; examine training and procedures if the eligible rent is never above the Rent Officer figure; train staff so that they can correctly identify protected groups and apply the relevant HB Regulations (Regulations 11 and 12) properly; and regularly collect information on local rent levels and make this available to assessors.

Payments on Account/Uncashed Payments

16. LAs should ensure that the accounting system is able to identify payments on account and stopped, returned and cancelled payments so that these can be treated correctly in the subsidy claim.

Annex B – Housing Benefit Subsidy Workshop

Pre-work

The aim of this workshop is to:

- address the high level of qualified claims nationally and to identify best practice to help reduce this level
- seek the views of local authorities in trying to understand what could be done better or differently within the constraints of the certification process to make this assurance arrangement more effective and efficient

The workshop will review the analysis of the top five qualification issues and what local authorities can do to avoid these.

Please prepare by identifying one or two qualification issues raised by your auditor in your recent local authority subsidy claims submitted to DWP, so that at regular points during the workshop, you can relate the theoretical concepts to your live cases. The aim is for you to gain insights and ideas for how to reduce the level of qualification issues that will result in your local authority's subsidy claim being qualified.

Objectives

At the end of this workshop participants will:

- Understand the main reasons why subsidy claims are qualified
- Have an awareness of DWP's rationale for recovering overpaid subsidy from local authorities
- Understand the responsibilities of DWP, the auditor and local authorities regarding the HB certification process
- Influence the future of HB certification
- Share learning from the HB certification process

Venue xxxxx

Housing Benefit Subsidy Workshop

- 10.00 Introductions and Expectations
- 10.15 Overview of the HB certification process
- Understand the responsibilities of DWP, the auditor and local authorities
- 10.30 Understand the main reasons why subsidy claims are qualified
- Reducing the high level of audit qualification
 - Overpaid benefit; underpaid benefit; overpayment classification; reconciliation issues;
 - Modified Schemes and any other qualification issues local authorities wish to raise.
- 11.30 Break
- 11.45 Understand the main reasons why subsidy claims are qualified (contd) and local authority views (Q&A)
- 12.30 The future of HB certification
- How we can improve this process (within the constraints that exist).so that it delivers something more useful to all parties involved.
- 13.15 Lessons learned
- 13.30 Feedback and Finish

Annex C – Workshop evaluations

Q1.1 Was the HB Certification Process Session Helpful?

- Relationship between private audit companies and Audit Commission now understood.
- Very useful. Now able to recognise the difference between an audit of the claim and certification of the claim.
- Clarified roles of all parties and highlighted availability of Audit Commission guidance.
- Understand the auditor's role and reasons for what is included in the qualification letter. Very good having Audit Commission at meeting.
- Was useful, good to know we can clarify areas with DWP and not just the Audit Commission.

Q1.2 Was the Main Qualifications Session Helpful?

- Useful knowledge sharing and best practice.
- Was interesting to see the analysis of qualifications across the 380 claims submitted as opposed to only being aware of the qualifications of your particular local authority.
- Helps to know what other authorities are doing but also that there are the same problems in other places. Checking seems to be the only answer and this will depend on resources.
- Good opportunity given for LAs to discuss all qualification reasons (not just top 5 issues).
- It's very helpful to know we are on the right track regarding our monthly monitoring of cells and checking processes are targeting the right areas.

Q1.3 Was the LA Views Session Helpful?

- Good to hear views from other LAs and share experiences.
- Being able to share experience is invaluable, especially when allied to input from key stakeholders such as audit and DWP.
- Reassuring that all LAs seem to share the same views and collectively agree on some of the areas DWP/audit can improve on, i.e. materiality, 40+ testing.
- Enabled a discussion of “de-minimis” values or “immateriality” for low value errors or discrepancies without being qualified.
- Very constructive, allowed views and concerns to be addressed in a non-dismissive manner – it appears that perceptions of the significance of a qualification can vary within an LA and give rise to major but misplaced concerns regarding this significance.

Q1.4 Was the Future of HB Certification Session Helpful?

- A lot of sensible ideas were put forward which hopefully will be amended in the certification scheme in the future.
- Excellent session as long as there is a positive outcome where possible.
- Really good as felt all issues were listened to and hopefully things will change.
- Good that LAs are able to have some input in the future of the process.

- There seems to be a willingness to make things better all round. Good positive discussions.

Q2 Other Subjects Which Could Have Been Discussed?

- Grant allocation. Impact of Universal Credit on future expenditure on subsidy.
- It may help to include a session on specific areas where authorities are struggling to understand the guidance, e.g. overpayment classification.

Q3 Overall, Was the Workshop Useful?

- Very useful and exceeded my expectations. Hope to be able to reduce level of qualification this year.
- Good to understand steps that can be taken when difficulties with actual auditors.
- Very useful to meet people from the Department and the Audit Commission and pick up tips from other LAs and ammunition to put forward a business case for resources in quality checking.
- Extremely useful. Would like to see more workshops repeated on annual basis. Do think that half a day isn't long enough. Don't get chance to discuss subsidy with other LAs in other groups so this is invaluable.
- Very useful to understand the issues being faced and that many of these issues are shared in common. Have picked up a couple of points that we can and will incorporate into our QA regime.

Q4 Any Other Comments?

- The session was helpful and informative. I believe that all LAs should attend one of these sessions.
- Fraud/error increasing must be as a result of reduction in Administration Grant and reduced resources – counter-productive.
- Very useful and look forward to Good Practice Guides.
- Regular subsidy meeting/feedback with DWP and auditors would be well received.
- The inconsistencies with the different auditors is a cause for concern – perhaps all qualification letters should be scrutinised by a set team before submission to iron out this problem.