

## Housing Benefit Circular

Department for Work and Pensions  
Caxton House, Tothill Street, London SW1H 9NA

# HB S1/2017

### SUBSIDY CIRCULAR

<b>WHO SHOULD READ</b>	All Housing Benefit staff
<b>ACTION</b>	For information
<b>SUBJECT</b>	Assurance of Housing Benefit subsidy claims 2018/19 (England only)

### Guidance Manual

The information in this circular does not affect the content of the HB Guidance Manual.

### Queries

If you

- **want** extra copies of this circular/copies of previous circulars, **they can be found on the website at** <https://www.gov.uk/government/collections/housing-benefit-for-local-authorities-subsidy-circulars>
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## **Assurance of Housing Benefit subsidy claims 2018/19 (England only)**

### **Introduction**

1. This circular advises on our approach to the future arrangements for the assurance of Housing Benefit (HB) Subsidy Grant claims in England commencing with the subsidy period 1 April 2018 to 31 March 2019. It sets out the Department's requirements to maintain assurance of the final grant claim form and outlines the detailed tasks and working papers that will underpin the arrangements including the procurement of accountancy suppliers.

### **Background**

2. Following the abolition of the Audit Commission, the Department for Communities and Local Government (DCLG) delegated statutory functions for the certification of HB subsidy claims to Public Sector Audit Appointments Ltd (PSAA Ltd) for a temporary period. This included responsibility for the appointment of auditors to the local authorities (LAs). On 5 October 2016, DCLG confirmed that it would extend the arrangement with PSAA Ltd until March 2018.
3. When the transitional arrangements outlined above expire LAs will appoint their own external accountant for the assurance of their subsidy claims. The Department for Work and Pensions (DWP) will be responsible for the HB assurance framework instructions, and the control of grant payments based on the assurance reports supplied under the new arrangements.
4. A number of options on how DWP should discharge this responsibility have been considered and the preferred model is outlined in this circular.

### **Housing Benefit Assurance Procedure**

5. DWP has developed the Housing Benefit Assurance Procedure (HBAP) to replace the HB COUNT model in use by PSAA Ltd. HBAP provides a comprehensive guide to providing assurance of HB Subsidy Grant claims submitted by LAs including the testing methodology to establish a basis for the assurance and amendment of claims prior to final submission and the provision of the tools with which to conduct the assurance engagement.

### **Procurement**

6. LAs will continue to be the appointed agents for the administration of the HB scheme including the management of the assurance engagement for the HB Subsidy Grant claim. The process will start from the point when the LA procures the services of an appropriate accountant. It will continue through the completion and submission of the final adjusted subsidy claim (form MPF720A) for each year and the issue of a final assurance report based on an 'agreed upon procedure' (AUP report) by the appointed accountant. This may require additional work by

the LA and appointed accountant after submission of the final claim in November to obtain a settlement with DWP.

7. The engagement will be conducted under a tripartite arrangement. A tripartite arrangement in this context will be between DWP, LAs and appointed accountants. Each role is distinct but forms an integral part of the process towards assuring HB Subsidy Grant claims from LAs.
8. The relationships within this tripartite arrangement are not similar in nature. For example the Department will have a non-commercial and arm's length relationship with the accountant whilst the actual contractual engagement will be between the LA and the contracted accountancy firm. The relationship between LAs and the DWP will still be based on the Housing Benefit Regulations 2006 (as amended) and the Income-related Benefits (Subsidy to Authorities) Order 1998 (as amended).
9. LAs will be responsible for the appointment of their own accountant. The acceptance of an assurance engagement between the LA and the reporting accountant will be notified to the DWP via an agreed confirmation letter from the LA.
10. LAs will be restricted in their appointments by the Local Audit and Accountability Act 2014, which requires bodies wishing to conduct public sector audits to be registered with the Institute of Chartered Accountants in England and Wales (ICAEW) as approved public Auditors. This will guarantee quality and capacity. A list of these firms can be found on the [ICAEW](#) website:
11. Appointments will need to be completed prior to the submission of LA's initial estimate for HB subsidy, which must be sent to DWP no later than the 1<sup>st</sup> March immediately preceding the financial year concerned. The estimate forms the basis of payments by instalment issued by the DWP.

### **Assurance Procedure**

12. The Department will be responsible for supplying the instructions, guidance and, where required, the tools to complete the assurance process and create supporting papers. Final adjudication of disputes based on interpretation of the instructions remains the responsibility of the Department.

### **Testing**

13. The testing process will not differ from the current methodology. Testing will be conducted on the basis of a sample check of claims and the re-performance of HB assessments. The process will be as follows:
  - an initial sample of 20 cases will be selected at random by the appointed accountant from the audit trails supporting the headline expenditure cells on the subsidy claim form MPF720A, for each of the three benefit types (Non-Housing Rent Account rent rebates, rent rebates and rent allowances)

- if the test population for a benefit type is less than 100, the initial sample may be reduced on a pro rata basis, for example, a population of 49 would require a sample of 10.
14. Where the initial testing results provide a sufficient understanding of the cell population to agree that the value of the change to subsidy claim is identifiable, an amendment can be made to the claim form for final submission and settlement.
  15. Exceptions identified during initial testing will require further study to determine the extent of the error in the subsidy claim. Where possible, the nature of the exception should enable identification of specific criteria upon which to narrow down the potential population of claims affected.
  16. Where the initial testing results do not provide a sufficient understanding of the cell population to agree an amendment or to drill down into the LAs caseload to identify a specific population affected by any exception; or the authority does not agree an amendment; the approach agreed by the Department is to select and test an additional random sample. A minimum sample of 40 cases should be taken for each cell where the initial testing identified exceptions. This is referred to as 40+ testing.
  17. Where initial testing produces results that do not match expectations from previous assurance work, additional re-performance testing will be necessary to confirm the accuracy of the claim for subsidy. This process was known in the previous methodology as CAKE (Cumulative Audit Knowledge and Experience). The additional work required will need to take into account and reflect what the authority says it has done to address previous amendment and AUP report issues. A minimum sample of 40 claims should be selected at random.

**Example** Misclassification of overpayments has been identified in previous reports or qualification letters but no cases detected in the initial sample this year. A sample of cases from the overpayment cells should be examined to confirm that the misclassification of overpayments has been addressed by the authority and does not affect the claim for all or part of the current period. A minimum sample of 40 cases should be taken for each cell where experience has identified potential exceptions.

18. All testing will be completed using the standard workbooks supplied by the Department.
19. Additional tests to be performed by the accountant are as follows:
  - all relevant parts of form MPF720A have been properly completed and bear the original signature of the Chief Financial Officer (Section 151 Officer)
  - the arithmetic on the claim is correct, this does not require the accountant to test the PDF final claim form itself
  - the entries in each section have been agreed to the final subsidy reports

- benefit granted reconciles to benefit paid, for each benefit type, in accordance with the software supplier's instructions
- in-year reconciliation for each benefit type agrees with total expenditure for that benefit type
- the LA's system for dealing with un-cashed and expired instruments of payment are reflected in the necessary adjustments to subsidy
- modified scheme expenditure is properly identified and is excluded from other entries on the claim form
- payments of HB Subsidy Grant stated in form MPF720A agree to the Department's formal notice of amounts payable and the LA's accounts
- the correct values for uprated incomes, allowances and premiums have been used
- explanation has been provided for any significant variation from amounts claimed in previous years
- form MPF720A has been completed using the appropriate software.

### **Reporting arrangements**

20. Once all testing is complete, the accountant will produce an AUP report stating the facts of any exceptions identified, including extrapolations to estimate the potential value of exceptions discovered and the final value of the HB subsidy claim.
21. The AUP report will be in the format specified in HBAP. The facts in respect of exceptions identified will be cross referenced to form MPF720A and the relevant assurance instruction requirements of HBAP. The exceptions will include values and descriptions, to permit the Department to make a decision on any subsequent action in relation to the LA's form MPF720A.
22. The AUP report and the results of the initial, 40+ testing and additional testing provide the basis for the Department to achieve settlement of claims without further recourse to reporting accountants. The Department will use this information to decide what further action is required. It may decide to settle the claim based on the test findings, or may need the authority to perform additional work, or provide clarification of any item within the report. The appointed accountant will also be asked to provide clarification where doubt exists over items included in the AUP report.
23. Where the AUP report includes an item that has not been agreed between the LA and the appointed accountant; or where the Department determines a final settlement that the LA believes is not supported by the AUP report; LAs may submit an explanation to the Department and offer additional evidence in support of their proposed amendment. Any additional testing of claims should be agreed with their appointed accountant to ensure that it will adequately address the issue

in question; and should be reviewed by their appointed accountant prior to submission to the Department.

24. Once the Department is satisfied with the content of the AUP report and any subsequent clarification or more detailed work by the local authority, it will settle the claim and advise LAs of necessary adjustments to payments required for overpaid or underpaid HB subsidy income.

### **Disputes/complaints**

25. In the first instance, any complaint should be raised directly with the accountant and will be dealt with under their normal procedures between the LA and the accountant. This could include discussion and negotiation with the DWP. However, disputes that are unresolved and concern the conduct of the appointed accountant in the execution of the assurance process may be referred to the ICAEW.
26. Queries regarding the application of HBAP should be directed to the Department. DWP will have a relationship with the LAs and accountants where we can arbitrate on matters of clarification during the assurance process. This offer of service will be separate and in addition to the rights and duties of the current Housing Benefit Subsidy team.

### **Future developments**

27. The full assurance guidance will be made available on GOV.UK by the end of the financial year 2016/2017.
28. At that stage the procedures will then be updated at regular intervals. In line with the practice of the Audit Commission and PSAA Ltd there will be an annual review and updating exercise undertaken by DWP.

### **Further Information**

29. Further information can be obtained from the Housing Benefit Certification Project Team.
- [Jason.perrott@dwp.gsi.gov.uk](mailto:Jason.perrott@dwp.gsi.gov.uk)
  - [Victor.dockree@dwp.gsi.gov.uk](mailto:Victor.dockree@dwp.gsi.gov.uk)

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## Question & Answer

### **Q: Is the new procedure a different approach to the current audit?**

A: In essence the existing procedure known as certification, due to expire in 2018, is more an agreed upon procedure. The new process is an assurance report based on an agreed upon procedure. The sampling, tests and results will be similar to the current arrangements. The scope for the auditor to provide judgement has been limited but from the point of view of LAs this process will look and feel similar to the current procedure.

### **Q: What is the difference between an audit providing reasonable assurance and an 'agreed upon procedures' (AUP) assurance?**

A: Reasonable assurance is a defined procedure, but the exact scope, nature and extent of the procedures required would be determined by the appointed auditor to support their opinion. The report would provide a broader, positive assurance on whether or not a Grant claim has been made in accordance with the Grant instructions. It is for the auditor to determine the exact wording of the conclusion to reflect their judgement. This is much broader and complex than an agreed upon procedure and so would be a longer and more expensive contractual engagement.

An AUP uses a defined scope of work, which will be performed exactly as stated by an appointed accountant, who will report the results of their findings. Any subsequent report will be factual, based upon the results of their findings and will not give a conclusion. It is then left to the grant paying body (DWP where HB Subsidy Grant is concerned) to interpret the results and make a judgement.

### **Q: Is the continuation of the HB COUNT methodology (subject to modification) really necessary?**

A: It is our belief, supported by the National Audit Office, that owing to the value of HB expenditure, the present testing regime is best able to provide the level of assurance required.

### **Q: Will we still need to complete the workbooks?**

A: The workbooks are the most satisfactory means by which to capture the claim data necessary to substantiate expenditure. It provides a method of assuring there is a universal application of the testing methodology.

### **Q: Will the same volume of testing be required?**

A: As the arrangements will broadly continue along the lines of the current model, the initial testing sample of 20 cases within each sub-population of expenditure would be preferable. Unless it is possible to establish the same degree of reassurance from a smaller population of claims, then it is accepted that this is the best model available.



Additional re-performance testing based on prior years' performance, previously known as Cumulative Audit Knowledge and Experience (CAKE) testing, is also to be retained in this model. This is the means by which errors identified in one assurance engagement can be demonstrated to have been addressed by an LA and that assurance of the accuracy of their claim can be achieved.

**Q: Audit appointments used to be made by either the Audit Commission or PSAA Ltd. Is there any reason why DWP cannot make audit appointments to LAs?**

A: To date there are no arrangements proposed that would delegate statutory powers similar to those held by the Audit Commission to the Department. Therefore the Department is unable to directly contract with accountancy firms in order to appoint auditors for this work.

In line with the government's overall localisation strategy, it is the Department's decision that it does not directly contract with accountancy bodies for the discharge of the assurance engagement for HB Subsidy Grant. This is similar to tripartite agreements already established in other similar grant activities.

**Q: Will LAs be free to select their own preferred auditor, based on price, or other commercial factors?**

A: Since the introduction of the Local Audit and Accountability Act, 2014, (LAAA, 2014) any audit provider wishing to carry out work on public sector accounts must be registered with the Institute of Chartered Accountants of England and Wales. (ICAEW)

ICAEW were granted recognition by the Financial Reporting Council as a recognised supervisory body with effect from 1 November 2015 and are responsible for licensing, registering and monitoring auditors for local public bodies. Licensing stipulates certain requirements on auditors meaning that LAs will be limited to select from those who are registered and fulfil ICAEW's prescribed criteria.

LAs are free to establish their own procurement, provided suppliers are registered with ICAEW as public auditors.

**Q: We're a small authority. What will happen if we are unable to attract an audit team by the deadline of 28 February 2018?**

A: Whilst we hope that this situation does not arise and that it can be mitigated by entering into joint procurement arrangements, where an authority fails to appoint an auditor by the time specified, DWP will retain the power to withhold payments of HB Subsidy Grant payable until such time as an appointment is confirmed.

**Q: Who will respond to queries or complaints about the conduct of the audit?**

A: The Department is presently developing a business plan to establish a relationship team that will act as the first point of contact for any queries from both LAs and appointed accountants, concerning the specifics of how to carry out the assurance process and technical queries about the subsidy claim.

It will also be possible to raise complaints about the conduct of the audit directly with the appointed accountant and where these are not resolved satisfactorily, to pass any complaint on to the ICAEW for investigation.

**Q: Will we be able to share data with appointed accountants as we were under the previous methodology? Including information from the DWP Customer Information System (CIS)?**

A: Yes. Appointed accountants will have the same right to information in support of completing their assurance work as is currently the case. It has also been established that HMG Baseline Personnel Security Standard (BPSS) allows appointed auditors to access data from CIS provided they use an LA employee already cleared for CIS access. BPSS does not require appointed accountants to be individually registered in these circumstances.

**Q: Will the process for claiming subsidy, and for the DWP to settle the claim, remain as it is now?**

A: The current model of submitting estimates to attract instalments based on forecasts of expenditure will be unaffected by these changes.

The submission of a final assured claim to settle an authority's accounts will also still be a requirement, with adjustments or penalty imposed according to the contents of the appointed accountant's report.

A process to offer alternative evidence in respect of the Department's final settlement of HB Subsidy Grant will also remain as part of the revised structure.

**Q: When will we know the final details of the revised arrangements?**

A: If by details you mean the assurance instructions then the methodology will be issued in the first quarter of 2017.

It is anticipated that audit services will need to be procured by LAs in the second or third quarter of 2017/18 in order to meet the deadline for securing audit services by 28 February 2018.

Arrangements will then be in place for full and detailed information to be circulated advising of the processes for the 2018/19 audit as is undertaken at present; and workshops will be organised to offer face-to-face support as we move across into the new regime.

Timeline Assurance Process example for subsidy period

