



# SOUTHEND ON SEA BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2013

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# INTRODUCTION

## THE PURPOSE OF THIS REPORT

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2013.

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. Sample sizes used in the work on the housing and council tax benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

During 2012/13, we have also acted as a reporting accountant in respect of claims and returns for which the Audit Commission has not made certification arrangements. In this instance, we have developed our own methodology. Further details are provided under the specific claim or return on page 7.

A summary of the fees charged for certification work for the year ended 31 March 2013 is shown to the right.

Appendix I of this report (page 9) shows the Council's progress against the action plan included in our 2011/12 Grant Claims and Returns Certification report (presented to Audit Committee on 9 January 2013).

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our certification work.

| FEES   | PLANNED SCALE FEE (£) | OUTTURN FEE (£)     |
|--|-----------------------|---------------------|
| Housing and council tax benefit subsidy                | 28,880                | 34,894 <sup>1</sup> |
| National non domestic rates return                     | 2,960                 | 2,960               |
| Pooling of housing capital receipts                    | 870                   | 870                 |
| Teachers' pension fund                                 | 2,890                 | 5,206               |
| <b><i>Sub-total: Audit Commission regime scale</i></b> |                       |                     |
| Decent homes backlog funding                           | 2,750                 | 2,750               |
| <b>TOTAL FEES</b>                                      | <b>38,350</b>         | <b>46,680</b>       |

<sup>1</sup> A fee variation has been requested from the Audit Commission. This is the proposed variation and will not be final until it has been agreed with the Audit Commission.

The outturn fee is higher than the planned scale fee for the following reasons:

- The scale fee for the Housing and Council Tax benefit subsidy is based upon the 2010/11 audit outturn where we only identified six certification issues which necessitated completion of additional testing under the prescribed methodology. In 2012/13, however, we identified twelve such certification issues necessitating completion of additional "40 plus" or 100% checks of particular claim entries. Consequently, additional audit resource was needed to complete re-performance work and draft the qualification letter.
- The scale fee for the Teachers' Pensions return is based upon the 2010/11 audit which was unqualified and no amendments were made to the claim form. Significant issues arose due to changes in compilation arrangements in 2011/12, as reported last year, and significant issues have persisted into 2012/13. This year's claim form has a number of issues and qualifications. Further information has been provided on page 5 below.

# KEY FINDINGS

## Summary of high level findings

| CLAIM OR RETURN                         | VALUE OF DRAFT CLAIM (£) | QUALIFIED? | AMENDED? | IMPACT OF AMENDMENTS (£) |
|---|--------------------------|------------|----------|--------------------------|
| Housing and council tax benefit subsidy | 107,565,881              | Yes        | Yes      | (62,582)                 |
| National non-domestic rates return      | 41,074,488               | No         | Yes      | 161,396                  |
| Pooled housing capital receipts         | 999,800                  | No         | No       | N/A                      |
| Teachers' pension fund                  | 7,299,669                | Yes        | Yes      | 553                      |
| Decent homes backlog funding            | 6,500,000                | No         | No       | N/A                      |

As well as the actual impact of the amendments identified above, you have a potential exposure of £716,043 as a result of the extrapolations we have performed following the identification of errors in our sample testing in relation to the Housing and Council Tax subsidy return ( see page 5).

## Detailed Findings

Below are details of each grant claim and return subject to certification by us for the financial year to 31 March 2013. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan in respect of these matters is included at Appendix II of this report on page 11.

| Housing and council tax benefit subsidy  | Findings and impact on claim  |
|--|---|
| <p>Local authorities responsible for managing housing benefit and council tax benefit schemes are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.</p> <p>Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A. The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions. We have no discretion over how this methodology is applied.</p> | <p>During our initial testing of a sample of cases twelve errors were identified. These resulted in nine areas requiring “40+” testing and three areas of 100% testing, as required by the methodology agreed with the Department for Work and Pensions (DWP). This methodology requires that, for situations where errors are identified that cannot be concluded as isolated, extended testing of an additional sample of 40 cases is required. Where there is a small population a 100% check is undertaken.</p> |

“40+” testing was completed on the following areas:

| 40+ testing  | Results  |
|--|--|
| Cell 55: rent rebates - total expenditure (Various errors identified in relation to standard cases, i.e. those not assessed on IS/JSA, including changes to child and working tax credits not being processed, incorrect calculation of earned income) | Additional errors identified where amounts had not been input correctly, resulting in an overpayment of benefit.<br><br>Extrapolated overpayment error of £35,999 reported in the Qualification Letter.  |
| Cell 66: rent rebates- technical overpayments (Claimant error overpayments had been incorrectly classified as technical overpayments)  | Additional errors identified where overpayments were incorrectly classified, resulting in misclassification of expenditure.<br><br>Extrapolated overpayment error of £17,237 reported in the Qualification Letter.                               |
| Cell 94: rent allowances - total expenditure (Claimants state retirement pension was entered as a 6 monthly figure rather than a weekly figure)  | Additional errors identified where the state retirement pension had been incorrectly entered. In one instance this resulted in an overpayment of benefit.<br><br>Extrapolated overpayment error of £23,216 reported in the Qualification Letter. |
| Cell 94: rent allowances - total expenditure (Claimants self employed income had been incorrectly entered)   | Additional errors identified where self employed income had been incorrectly entered, resulting in an overpayment of benefit.<br><br>Extrapolated overpayment error of £67,631 reported in the Qualification Letter.                             |

| 40+ testing  | Results  |
|--|--|
| Cell 113: rent allowances - LA error and administrative delay excess benefit (During last year's audit we identified that a number of eligible overpayments had been misclassified as LA error. The guidance requires us to carry out 40 plus testing because of this.)  | Additional errors identified where overpayments were incorrectly classified, resulting in misclassification of expenditure.<br><br>Extrapolated overpayment error of £45,956 reported in the Qualification Letter. |
| Cell 142: council tax - total expenditure (Various errors identified in relation to standard cases, i.e. those not assessed on IS/JSA, including changes to child and working tax credits not being processed, errors identified in the previous year and figures incorrectly entered into the calculation screen. | Additional errors identified where amounts had not been input correctly, resulting in an overpayment of benefit.<br><br>Extrapolated overpayment error of £71,201 reported in the Qualification Letter.            |
| Cell 142: council tax - total expenditure (During last years audit we identified that Single Person Discount (SPD) was not applied in benefit calculation. As a result the guidance requires us to carry out 40 plus testing)  | No further errors were identified from the extended testing.<br><br>We therefore concluded this as satisfactory.   |

"100%" testing was completed on the following areas:

| 100% testing   | Results  |
|--|--|
| Cell 214: Modified schemes: all benefit types (various errors identified, including where the war pension was incorrectly entered, incorrect date of uprating of war pensions, other benefit amounts incorrectly entered e.g. incapacity benefit ) | Additional errors were identified from the testing carried out. The overall effect on modified schemes was to decrease the value by £4,352. These will be processed in 2013/14 and therefore no amendment was made to the grant claim. |
| Uncashed Cheques (uncashed cheques had been included which had not been stopped in 2012/13 and therefore should not have been included in cell 179 on the claim form.  | Additional errors were identified and the claim form was amended.  |

|   |  |
|---|--|
| <p>Housing and council tax benefit subsidy</p>  | <p>Findings and impact on claim</p> <p>The extrapolated errors all relate to over-claims of subsidy. If DWP decide to adjust for all of these extrapolated errors, then the total adjustment to the overpayments reported would be £236,921, resulting in a potential loss of subsidy of £716,043 because the Council would then breach the overpayments threshold within the scheme and therefore receive less subsidy. In total this represents a potential 0.6% reduction in subsidy.</p> <p>The overall control environment around the Housing and Council Tax benefit system, and for the preparation of the benefits grant claim, is considered to be generally sound. However, our testing found an increased number of errors, although this should be viewed in the context of the technical nature and large volume of caseload the benefits team process.</p> <p>These issues have been reported to the DWP in a qualification letter, as required by the Audit Commission's methodology.</p> |
| <p>National non-domestic rates return</p> <p>The Council is a billing authority and as such is required, on an annual basis, to calculate its contribution to the centrally-administered non-domestic rates pool. The value of the contribution must be notified to the Secretary of State. This is done on form NNDR3, which is subject to certification.</p>  | <p>Findings and impact on return</p> <p>The claim form was unqualified. However, two amendments were made to the claim form provided for audit. The first error related to the deferral scheme - amounts that had been deferred in earlier years had been incorrectly included in the initial claim form. The second amendment related to the date in which the latest information was taken into account in preparing the claim. This was amended to agree to the date of the last valuation office schedule taken into account in preparing the claim.</p> <p>The impact was to increase the amount payable to the pool by £161,396.</p>   |
| <p>Pooling of housing capital receipts</p> <p>Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received. The information in these returns is subject to certification on an annual basis.</p> | <p>Findings and impact on return</p> <p>The claim was unqualified and no amendments were required to be made to the claim form provided for audit.</p>   |

## Teachers' pension fund

Local authorities which employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to Teachers' Pensions (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYCd, which is subject to certification.

## Findings and impact on return

Our initial fieldwork to support the certification was scheduled for, and took place during, the week commencing 21 October 2013. At this stage we identified that:

- The Council was unable to provide a completed copy of form EOYCd as the contributions paid value included on the form had not been agreed with Teachers' Pensions. The deadline for submitting form EOYCd to us for certification was 30 June 2013.
- There were inadequate working papers to support the entries on the preceding version of the return (designated EOYCa, which includes the same information as form EOYCd and differs only in the fact that the contributions paid value has not been agreed with Teachers' Pensions). The working papers that were available were not supported by adequate evidence (e.g. reports from the Agresso payroll system, or documentation to support manual adjustments).

We agreed with the Council that we would postpone our work so that these matters could be resolved and would complete the remaining tasks during the week commencing 18 November 2013.

Form EOYCd was presented to us for certification on 20 November 2013, by which time the Council had also prepared a more comprehensive set of working papers. However, our work identified the following issues:

- The Council was unable to provide evidence from the Agresso payroll system to support the April 2012 contributory salary (with a value of £2,945,900).
- The manually calculated total employer contributions shown on form EOYCd were £7,006 lower than those shown on the Agresso system, with no explanation for the difference..
- The treatment of adjustments made to teachers' contributions between April 2012 and October 2012 was inconsistent. This resulted in a possible overstatement of teachers' contributions of £345 on form EOYCd.
- Total contributions paid of £7,299,189 shown on form EOYCd could not be agreed to the Agresso payroll system, which showed a value of £7,306,980.
- The Council was been unable to provide a schedule of teachers from the Agresso payroll system which can be reconciled to the totals shown on form EOYCd. We are therefore unable to confirm that the amounts shown on form EOYCd represent only those teachers employed by LA-maintained schools and other relevant Council establishments.

The above issues have been included in a qualification letter sent to Teachers' Pensions. This letter also included reference to form EOYCd not being made available for certification until 20 November 2013.



|   |   |
|---|---|
| Teachers' pension fund  | Findings and impact on return   |
|   | <p>Two amendments were made to the claim form. The value for refunds made in respect of prior years shown in section 2 of form EOYCd was amended from -£15,016 to £16,673 as a result of our certification work. This resulted in an additional £1,658 being due from Teachers' Pensions to the Council. The final amendment related to a arithmetical error.</p> <p>The issues described above resulted in delays to the completion of our work and the certified return was submitted after the deadline of 29 November 2013.</p> |
| Decent homes backlog funding  | Findings and impact on return   |
| <p>The authority received funding from the Homes and Communities Agency for Decent Homes Backlog Funding which required a report from a firm of accountants. This work was completed outside of the Audit Commission regime. It was carried out under the provisions of International Standard s of Related Services (ISRS) 4400 'Engagements to perform agreed upon procedures regarding financial information. We carried out a number of procedures requested by the authority and provided a report to the authority.</p> | <p>We carried out the procedures detailed within the engagement letter and obtained information and explanations we considered necessary to be able to complete our work. Our report was issued on the 24<sup>th</sup> October 2013.</p>  |



# APPENDICES

## APPENDIX I: STATUS OF 2011/12 RECOMMENDATIONS

| RECOMMENDATIONS  | PRIORITY | MANAGEMENT RESPONSE   | RESPONSIBILITY            | TIMING                 | PROGRESS   |
|--|----------|---|---------------------------|------------------------|--|
| <b>HOUSING AND COUNCIL TAX BENEFIT SUBSIDY</b>   |          |   |                           |                        |  |
| Provide improved training to all staff members who are involved with completing benefit assessments.   | High     | 1. Continued checks are to be carried out on a weekly basis of calculations that include earned income. Errors identified are fed back to both the officer and the relevant team leader.<br>A review of the 2011/12 claim and required training will be undertaken to ensure the training programme meets the areas required for development.   | V Dewsbury<br>GM Benefits | March 2013 and ongoing | Daily checks on earned income preformed from January 2013.<br><br>Training was carried out in Jan/Feb 2013. As a result had limited impact on the 2012/13 claim. |
| Perform additional checks on the assessments that are undertaken by temporary staff and staff with limited experience in completing these assessments, particularly for cases where the claimants have earned income in their benefit calculations.                        | High     | 2. Temporary staff are no longer used on site at Southend. Resilience staff used off- site are subject to stringent quality assurance procedures. New or inexperienced staff are not released from training until the Training and Development Officer is satisfied with their performance. Until this time a 100% check of their work is carried out. A review of both these areas will be undertaken to see if any further improvements can be made in assessments by new and resilience staff. | V Dewsbury<br>GM Benefits | March 2013 and ongoing | Not required as no new starters/temporary in the period from March 2013. However, relevant checking will be undertaken if new or temporary staff employed.       |
| <b>TEACHERS' PENSION FUND</b>  |          |   |                           |                        |  |
| Retain a clear audit trail for all figures included within the Teachers' pension return, including reports generated from the payroll system to support the pension figures and detailed payroll reports from schools where the payroll service is not completed in-house. | High     | 1. Agreed. Reconciliations report and process now in place.<br>All schools now using SBC payroll service other than academies which are responsible for their own returns.  | Payroll<br>Malkit Lall    | December 2012          | Not implemented.<br>New recommendations raised below.  |
| Complete a secondary review of the entries included within the Teachers' pension return before it is submitted for audit.  | Medium   | 2. Agreed. Independent management check to be put in place.   | Payroll<br>Malkit Lall    | March 2013             | Not implemented.<br>New recommendations raised below.  |

| RECOMMENDATIONS  | PRIORITY | MANAGEMENT RESPONSE                             | RESPONSIBILITY                       | TIMING    | PROGRESS  |
|--|----------|---|--------------------------------------|-----------|---|
| <b>NATIONAL NON DOMESTIC RATES RETURN</b>  |          |   |                                      |           |   |
| Complete a secondary review of the entries included within the NNDR return prior to submission to audit, to ensure that the items reported are correct, agree to supporting evidence and that items have been correctly calculated in accordance with the guidance.                  | Medium   | Agreed.<br>A review process will be introduced. | C Lynch<br>GM Revenues               | June 2013 | The claim form was reviewed prior to audit.<br>Implemented. |
| <b>POOLED HOUSING CAPITAL RECEIPTS RETURN</b>  |          |   |                                      |           |   |
| Complete a secondary review on the entries included within the pooled capital receipts return prior to submission to audit, to ensure that the items reported are correct, agree to supporting evidence and that items have been correctly recorded in accordance with the guidance. | Medium   | Agreed.<br>A review process will be introduced. | I Ambrose<br>GM Financial Management | June 2013 | The claim was reviewed prior to audit.<br>Implemented.      |

## APPENDIX II: 2012/13 ACTION PLAN

| HOUSING AND COUNCIL TAX BENEFIT SUBSIDY   |  |          |   |   |                           |
|---|--|----------|---|---|---------------------------|
| CONCLUSIONS FROM WORK   | RECOMMENDATIONS  | PRIORITY | MANAGEMENT RESPONSE   | RESPONSIBILITY                                | TIMING                    |
| A number of errors were identified during our testing on the input of income and the classification of overpayments.  | 1. Re-enforce key messages from Training provided in Jan 2013.   | High     | Agreed - issue to be reiterated at team Leader meetings and through team meetings   | Asst Benefit Managers                         | February 2014 & ongoing   |
|   | 2. Carry out regular checking of a number of claims to ensure that: <ul style="list-style-type: none"> <li>Income has been input correctly.</li> <li>Overpayments have been correctly classified.</li> </ul> | High     | Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked  | Asst Benefit Managers                         | January 2014              |
|   |  |          | Team leaders to check high value Admin Delay overpayments to check correctly classified. To be reviewed regularly by Asst. Benefit Manager.                               | Team Leaders & Asst Benefit Manager           | January 2014              |
|   | 3. Check a sample of claims during the period from March - Dec 13. Ensure that any amendments are made before the claim form is run.   | High     | Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked by time of External Auditors sampling. | Asst Benefit Manager                          | Implemented and ongoing   |
|   | 4. Carry out 40 plus testing in the areas where errors were identified, during 2012/13, to enable timely completion of the audit.  | High     | This will be done by quality assurance team by time of External Auditors sampling.  | Asst Benefit Manager                          | Implemented and ongoing   |
| Our testing identified a number of uncashed cheques that should not have been included in Cell 179 as they had not been stopped during 2012/13.   | 5. Review a sample of uncashed cheques included within cell 179 to ensure that they are appropriately included in this cell.   | Medium   | Agreed will be added as a task for the QA team.   | Asst Benefit Manager & Quality Assurance Team | June 2014                 |
| A large number of LA error and administrative delay errors were identified during our testing. Resulting in the council breaching the upper threshold and losing subsidy on these overpayments. | 6. Regularly monitor the value and number of LA error/ administrative delay errors and the days taken to process amendments.   | High     | To be covered by QA team and Team Leaders and reported monthly to Revenues & Benefits meeting.  | Quality Assurance Team & Asst Benefit Manager | Implemented February 2014 |


| HOUSING AND COUNCIL TAX BENEFIT SUBSIDY   |   |          |   |                       |                         |
|---|---|----------|---|-----------------------|-------------------------|
| CONCLUSIONS FROM WORK   | RECOMMENDATIONS   | PRIORITY | MANAGEMENT RESPONSE   | RESPONSIBILITY        | TIMING                  |
|   | 7. Consider the need of re-directing resources where delays in processing are identified.   | High     | Agreed. Where delays are identified additional resources will be put in place to reduce processing times.                                   | GM - Benefits         | Implemented and ongoing |
| The Council is proposing to remove all old information from the Eclipse system, which is no longer supported, (the system includes old claim form and evidence provided by claimants). There is a risk that data is deleted and therefore the entries within the subsidy claim can not be supported, which would result in a loss of subsidy. | 8. Ensure that up to date information is held for all claimants. In particular, write to claimants where they are in receipt of war pensions or private pensions. (these are the cases where information tends to be old or out of date). | High     | New claims data has now been transferred from Iclipse   | Asst Benefits Manager | Completed               |
|   |   |          | A plan is being drafted to write to all affected claims to get up to date evidence onto Civica.   |                       | Completed February 2014 |
|   |   |          | Claims where War Pensions and/or private pension affect the calculation of benefit to be written to, to request current evidence of income. |                       | February 2014           |

| TEACHERS' PENSION FUND  |  |          |   |                           |  |
|---|--|----------|---|---------------------------|--|
| CONCLUSIONS FROM WORK   | RECOMMENDATIONS  | PRIORITY | MANAGEMENT RESPONSE   | RESPONSIBILITY            | TIMING                                   |
| Form EOYCd was not made available by the Council until 20 November 2013.  | 1. Agree form EOYCd with Teachers' Pensions and submit the form to the external auditors for certification by no later the deadline specified by Teachers' Pensions.   | Medium   | Agreed. Return to be submitted in line with deadline.   | Sue Putt<br>Group Manager | To be provided by Teachers pensions      |
| A large number of errors were found with the Teachers' pension return that was submitted for audit. This was because the figures originally included could not be supported by reports from the payroll system. | 2. Maintain working papers to support form EOYCd. These should be clearly cross-referenced to both the final version of form EOYCd and appropriate supporting evidence (e.g. reports from the Agresso payroll system, documentation to support adjustments). | High     | Clear process to be put in place for any paperwork undertaken. Automation of processes to be developed within Agresso to minimise paper requirements. | Sue Putt<br>Group Manager | January 2014, test run in February 2014. |

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|   |        |  |
|---|--------|--|
| 3. Arrange for form EOYCd, the supporting working papers and associated evidence to be independently reviewed prior to submission to the external auditors for certification. | High   | <p>Reports being developed to ensure they meet the required needs of the EOYCd.</p> <p>Academies and Community Schools to be separated on reports.</p> |
| 4. Carry out a dry run of compiling the claim form at month six to ensure that all evidence is available to support the entries.  | Medium | <p>A test run will be completed to ensure all processes are in place and reports accurate.</p>   |

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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