



## SOUTHEND-ON-SEA BOROUGH COUNCIL

### GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2017  
4 January 2018

# INTRODUCTION

## PURPOSE AND USE OF THIS REPORT

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2017.

### Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim 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.

### Other certification work

A number of other grant claims and returns are not within the scope of the terms of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

Under these arrangements the Council has engaged us to carry out the following for the year ended 31 March 2017:

- A 'reasonable assurance' review, based on the instructions and guidance provided by the Department for Communities and Local Government (DCLG), of the pooling of housing capital receipts return
- Completion of 'agreed-upon procedures', based on the instructions and guidance provided by the Department for Education, of the teachers' pensions return.

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

## AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

# CONTENTS

|   |    |
|---|----|
| INTRODUCTION.....                                       | 1  |
| CONTENTS .....  | 2  |
| KEY FINDINGS .....                                      | 3  |
| DETAILED FINDINGS.....                                  | 4  |
| APPENDICES .....  | 9  |
| APPENDIX I: STATUS OF PRIOR PERIOD RECOMMENDATIONS..... | 10 |
| APPENDIX II: FEES SCHEDULE .....                        | 11 |

---

## KEY FINDINGS

Below are the summarised results of our work on each grant claim and return subject to certification by us for the financial year ended 31 March 2017. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided in the Detailed Findings section on the following pages. An action plan is included at Appendix II of this report.

| CLAIM OR RETURN                            | VALUE OF CLAIM OR RETURN (£) | QUALIFIED? | AMENDED? | IMPACT OF AMENDMENTS(£)                               |
|--|------------------------------|------------|----------|---|
| Housing benefit subsidy claim              | £86,761,064                  | YES        | YES      | £28,243<br>increase in subsidy claimed by the Council |
| Pooling of housing capital receipts return | £2,874,650                   | NO         | YES      | £0  |
| Teachers' pensions contributions return    | £5,502,536                   | YES        | YES      | £1,593<br>increase in payments made by the Council    |

## DETAILED FINDINGS

### HOUSING BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit 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.

Our work on this claim includes verifying that the Council is using the correct version of the benefit system 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 reported in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded a total amount claimed as subsidy of £86,761,064. The final submission was increased by £28,243 to £86,789,307.

### FINDINGS AND CONCLUSION

Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.

Guidance requires auditors to undertake extended '40+ testing' if initial testing identifies errors in the benefit entitlement calculation or in the classification of expenditure. '40+ testing' testing is also undertaken as part of our follow-up of prior year issues reported. This additional testing, combined with the original testing where there has been an overpayment of benefit, is extrapolated (or extended) across the population being tested.

Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate.

Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this within our qualification letter.

This approach resulted in 10 areas of '40+ testing', 4 areas of additional '100% testing' and 5 amendments to the claim form.

PSAA's methodology allows Council staff to perform the additional work, but requires auditors to re-perform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily reached and recorded. We were able to rely on the conclusions drawn by the Council.

Our work was completed and the claim was certified before the Government's deadline of 30 November 2017. Adjustments were made to the claim to reflect 5 amendments that needed to be made to the figures from the system, the most notable of which were a £54,738 increase in subsidy claimed as the system prevents payments being made to claimants at more than one address, and a £26,864 reduction in subsidy claimed because of payments that the system had duplicated. These two adjustments account for £27,874 of the total adjustment of £28,243, with the remainder being made up of three minor adjustments.

Our audit certification was qualified and we quantified the effect of the errors identified on the Council's entitlement to subsidy (based on our extrapolations) in a letter to the Department of Work and Pensions. The Council is awaiting the outcome of the DWP's review of our qualification letter on its final subsidy amount for the year. If the DWP decide to adjust the subsidy claimed by the extrapolated value of errors for all of the matters reported in the qualification letter, the Council will have over-claimed subsidy by net value of £34,818, which would become payable to the DWP.

A summary of our audit findings can be found on the next page. For context it should be noted that there are different classifications of overpayment, depending on what has caused the overpayment to occur. The Council is entitled to different rates of subsidy on the different overpayment classifications.

| BENEFIT TYPE  | ERROR TYPE  | IMPACT ON CLAIM   |
|---|---|---|
| Rent Allowances- Misclassification of overpayments: Local Authority Error | <p>In 2015/16 our testing identified 18 cases where the Council misclassified overpayments as Local Authority Error when they should have been classified as Eligible overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 3 cases in 2016/17 where the overpayment should have been classified as an Eligible overpayment. Therefore an extrapolation was included within our Qualification Letter.</p>   | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Local Authority Error overpayments by £37,517 and understated Eligible overpayments by £37,517.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £15,007.</p> |
| Rent Allowances- Misclassification of overpayments: Eligible              | <p>In 2015/16 our testing identified 10 cases where the Council misclassified an overpayment as an Eligible overpayment when it should have been classified as a Local Authority Error overpayment. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 5 cases where the overpayment should have been classified as Local Authority Error.</p> <p>An extrapolation was included within the Qualification Letter.</p>   | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Eligible overpayments by £356 and understated Local Authority Error overpayments by £356.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £142.</p>          |
| Rent Allowances- Misclassification of overpayments: Eligible (Prior year) | <p>In 2015/16 our testing identified 5 cases where the Council misclassified overpayments as Eligible overpayments when they should have been classified as Local Authority Error overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 3 cases where the overpayment should have been classified as a Local Authority Error Overpayment.</p> <p>An extrapolation was included within the Qualification Letter.</p>   | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Eligible overpayments by £13,506 and understated Local Authority Error overpayments by £13,506.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £5,402.</p>  |
| Rent Allowances- Standard Income  | <p>In 2015/16 our testing identified 13 cases where the Council had incorrectly entered the claimant's income (other than earned income) in benefit calculations.</p> <p>This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified that income had been incorrectly entered into benefit calculations in 4 cases resulting in benefit being underpaid in 2 cases and 2 cases where it had no effect on the benefit paid.</p> <p>These underpayments have not been extrapolated.</p> | <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes. However we have reported the processing errors identified, in the Qualification Letter.</p>   |

| BENEFIT TYPE  | ERROR TYPE  | IMPACT ON CLAIM   |
|---|---|---|
| Rent Allowances- Earned Income  | <p>In 2015/16 our testing identified 6 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified that earned income had been incorrectly applied in benefit calculations in 6 cases resulting in benefit being underpaid in 3 cases, overpaid in 2 cases and 1 case where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p> | <p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £40,047. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £40,047.</p> |
| Rent Allowances- Non dependant Income   | <p>In 2015/16 our testing identified 11 cases where the non-dependant income had been incorrectly entered in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 9 cases where non dependant income had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 1 case and 8 cases where it had no effect on the benefit paid.</p> <p>This underpayment has not been extrapolated.</p>                       | <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes. However we have reported the processing errors identified, in the Qualification Letter.</p>                           |
| Rent Allowances- Cases excluded from the requirement to refer to the Rent Officer | <p>In 2015/16 our testing identified 4 cases where the weekly rent had been incorrectly entered in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 4 cases where the weekly rent had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 1 case and 3 cases where there had been overpayments of benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>             | <p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £27,718. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £27,718.</p> |

| BENEFIT TYPE   | ERROR TYPE  | IMPACT ON CLAIM   |
|--|---|---|
| Rent Rebates- Standard Income                              | <p>In 2015/16 our testing identified 8 cases where income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 7 cases where income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 2 cases, overpaid in 3 cases and 2 cases where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>              | <p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £4,528. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £4,528.</p>   |
| Rent Rebates- Earned Income                                | <p>In 2015/16 our testing identified 9 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 6 cases where earned income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 3 cases, overpaid in 2 cases and 1 case where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p> | <p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £1,867. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £1,867.</p>   |
| Rent Rebates- Misclassification of overpayments: Technical | <p>In 2015/16 our testing identified 16 cases where the Council misclassified overpayments as Technical overpayments when they should have been either Eligible overpayments or Local Authority Error overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 54 cases where the Technical overpayment should have been classified as an Eligible Overpayment</p> <p>An extrapolation was included within the Qualification Letter.</p>                 | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Technical overpayments by £74,697 and understated Eligible overpayments by £74,697.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £29,879.</p> |



**POOLING OF HOUSING CAPITAL RECEIPTS**

Local authorities are required to pay a portion of any housing capital receipts 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 annual return provided for audit recorded total receipts of £2,874,650 of which £2,874,650 was payable to DCLG.

DCLG requires that this return is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide a reasonable assurance report.

**FINDINGS AND IMPACT ON RETURN**

The return was amended to include the actual amount of new-build expenditure between 01 April 2016 and 31 March 2017, which was initially excluded from the return.

The Council has agreed to this amendment but at the time of drafting this report the amendment process has not been completed. Once this amendment has been made we will issue our unqualified reasonable assurance report in respect of this claim.

**TEACHERS' PENSIONS**

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

The Department for Education requires that Form EOYC is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide an 'agreed-upon procedures' assurance report before the Government's deadline for submitting the audited return.

**FINDINGS AND IMPACT ON RETURN**

Our work identified that there was a difference of £76 between the total employer contributions reported by the Council's payroll records and the value reported in form EOYC. This difference has been included in our report to the Department for Education.

Also, the original form EOYC provided to us reported that a refund to the value of £1,593 had been made to a teacher and therefore the Council's contributions to Teachers' Pensions was reduced accordingly. However our work identified that no refund was made to the teacher and therefore form EOYC was amended to remove the reported refund before submission to Teachers' Pensions.

# APPENDICES

## APPENDIX I: STATUS OF PRIOR PERIOD RECOMMENDATIONS

| RECOMMENDATION   | PRIORITY | RESPONSIBILITY               | TIMING                      | PROGRESS   | STATUS  |
|--|----------|------------------------------|-----------------------------|--|---|
| <b>HOUSING BENEFITS</b>  |          |                              |                             |  |   |
| Complete increased, targeted sample checks on the work completed by benefit assessors to identify any particular training needs and to ensure that any known errors are being addressed. | High     | Benefits Manager             | April 2016 Onwards          | We have been able to evidence that increased and targeted checking is now undertaken by the Quality & Assurance Team with monthly performance monitoring reports to the Director of Finance. This report includes the type of errors and resulting training given. | Open<br>Our 2016/17 audit evidences that the volume of errors identified has reduced significantly in comparison to 2015/16. It is possible that continuation of this checking process in 2017/18 will further reduce this volume.          |
| Provide specific targeted training to the benefits team on how to classify overpayments.   | High     | Benefits Manager             | April 2016 Onwards          | We have been able to evidence that training has been provided to staff and forms part of the annual refresher training programme.  | Open<br>Our 2016/17 audit evidences that the volume of errors identified has reduced significantly in comparison to 2015/16. It is possible that continuation of this training process in 2017/18 will further reduce this volume.          |
| <b>TEACHERS' PENSION</b>   |          |                              |                             |  |   |
| Identify a more efficient way to extract this information from the Agresso system.   | High     | Marie Kohler and Mike Miller | April 2017                  | The extraction process remains challenging and our work identified errors in the transfer of data from the payroll records to the EOYC form.   | Open<br>Further work needs to be undertaken to improve the process of extracting the data from the Agresso payroll records to the EOYC form.  |
| Set up a new process or function on Agresso to take into consideration the back payment and allocate to the month the missing pay is relevant to.  | Medium   | Marie Kohler and Mike Miller | April 2017                  | No evidence of a new process or function on Agresso has been provided.   | Open<br>However no matters of this nature arose from our work in 2016/17.   |
| Undertake training for any new employees or where there have been any changes to the Teachers' Pension guidance.   | Medium   | Marie Kohler                 | January 2017 and on - going | No evidence of any additional training being undertaken has been provided.   | Open<br>Key staff absences caused difficulties in form EOYC completion and review processes, demonstrating the importance of clear training guidance being available so that other officers can address requirements during these absences. |

## APPENDIX II: FEES SCHEDULE

|   | 2016/17<br>FINAL | 2016/17<br>PLANNED | 2015/16<br>FINAL | EXPLANATION FOR VARIANCES   |
|---|------------------|--------------------|------------------|---|
|   | £                | £                  | £                |   |
| <b>PSAA regime</b>                                |                  |                    |                  |   |
| Certification fee (Housing benefit subsidy claim) | 21,284           | 21,284             | 22,226           | N/A   |
| <b>TOTAL PSAA REGIME FEES</b>                     | <b>21,284</b>    | <b>21,284</b>      | <b>22,226</b>    |   |
| <b>Other certification work</b>                   |                  |                    |                  |   |
| Pooling of Housing Capital Receipts return        | 3,500            | 2,500              | 2,500            | Additional time was incurred as a result of the problems encountered with the auditing of this return, amendments required to the return, including obtaining agreement to the amendment and to get the amendment processed on the Logasnet system. |
| Teachers' pensions return                         | 7,000            | 8,000              | 9,500            | N/A   |
| <b>TOTAL CERTIFICATION FEES</b>                   | <b>10,500</b>    | <b>10,500</b>      | <b>12,000</b>    |   |



FOR MORE INFORMATION:

**LISA CLAMPIN**  
Engagement lead

T: +44 (0)1473 320 716  
E: lisa.clampin@bdo.co.uk

**ANDREW BARNES**  
Manager

T: +44 (0)1473 320 745  
E: andrew.barnes@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2017 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

