



SOUTHEND-ON-SEA BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2018
13 March 2019

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 2018.

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 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.

The Council has engaged us to carry out the following for the year ended 31 March 2018:

- 'Agreed-upon procedures', based on the instructions and guidance provided by the Ministry of Housing, Communities and Local Government (MHCLG), of the Pooling of housing capital receipts return
- '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 committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are 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 regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of 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 entities.

More details can be found in our Transparency Report at www.bdo.co.uk

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KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2018. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided on the following pages. An action plan is included at Appendix I of this report.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	NET IMPACT OF AMENDMENTS(£)
Housing benefit subsidy	£80,205,932	YES	YES*	£8,788 Decrease in subsidy claimed by the Council
Pooling of housing capital receipts	£2,807,400	YES	YES**	£0
Teachers' Pensions***	£4,185,681	TBC	TBC	TBC

*The amendments made largely relate to manual adjustments identified by the Council after the initial claim was submitted.

**The amendment made (detailed on page 10) did not impact the level of subsidy being received.

***Please note that the work on the Teachers' Pensions Return is still underway. Please see page 10 for further details.

DETAILED FINDINGS

HOUSING BENEFIT SUBSIDY	FINDINGS AND CONCLUSION
<p>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.</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.</p> <p>The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.</p> <p>The draft subsidy return provided for audit recorded amounts claimed as subsidy of £80,205,932. The final submission was reduced by £8,788 to £80,197,144.</p>	<p>Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.</p> <p>Guidance requires auditors to undertake extended '40+ testing' if initial testing identified errors in the benefit entitlement calculation or in the classification of expenditure. Such 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. 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.</p> <p>This resulted in 10 areas of '40+ testing', 5 areas of '100% testing' and 3 amendments to the claim form. All areas of '40+' and '100% testing' were performed by the Council and re-performed by BDO.</p> <p>PSAA's methodology requires auditors to re-perform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily recorded. We were able to rely on the conclusions drawn by the Council.</p> <p>Our work was completed and the claim was certified before the Government's deadline of 30 November 2018. 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 (DWP). The Council is awaiting the outcome of the DWP review of our qualification letter on its final subsidy amount for the year.</p> <p>The claim form has been amended for all errors identified from the '100% testing'. A summary of our audit findings from the '40plus testing' and the potential impact if amendment were to be made can be found on the next page.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Misclassification of overpayments: Local Authority Error	<p>In 2016/17 our testing identified 3 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 2017/18 and to quantify the results.</p> <p>Our testing identified 7 cases in 2017/18 where the overpayment should have been classified as an Eligible overpayment and 1 case where the overpayment should have been classified as a Prior Year 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 £27,151, understated Eligible overpayments by £27,274 and overstated Prior Year Eligible Overpayments by £123.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £10,860.</p>
Rent Allowances- Misclassification of overpayments: Eligible	<p>In 2016/17 our testing identified 4 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 2017/18 and to quantify the results.</p> <p>No errors were identified.</p>	Not applicable.
Rent Allowances- Misclassification of overpayments: Eligible (Prior year)	<p>In 2016/17 our testing identified 3 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 2017/18 and to quantify the results.</p> <p>No errors were identified.</p>	Not applicable.

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Standard Income	<p>In 2016/17 our testing identified 4 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 2017/18 and to quantify the results.</p> <p>Our testing identified that income had been incorrectly entered into benefit calculations in 6 cases resulting in benefit being underpaid in 2 cases and overpaid in 4 cases.</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 £20,271. 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 £20,271.</p>
Rent Allowances- Earned Income	<p>In 2016/17 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 2017/18 and to quantify the results.</p> <p>Our testing identified that earned income had been incorrectly applied in benefit calculations in 4 cases resulting in benefit being underpaid in 2 cases and overpaid in 2 cases.</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 £17,978. 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 £17,978.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Non dependant Income	<p>In 2016/17 our testing identified 9 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 2017/18 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 2 cases, overpaid in 4 cases, and 3 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 £9,399. 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 £9,399.</p>
Rent Allowances- Cases excluded from the requirement to refer to the Rent Officer	<p>In 2016/17 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 2017/18 and to quantify the results.</p> <p>Our testing identified 7 cases where the weekly rent had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 4 cases and overpaid in 3 cases.</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 £6,820. 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 £6,820.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Rebates- Standard Income	<p>In 2016/17 our testing identified 7 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 2017/18 and to quantify the results.</p> <p>Our testing identified 12 cases where income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 1 case, overpaid in 6 cases and 5 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 £6,652. 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 £6,652.</p>
Rent Rebates- Earned Income	<p>In 2016/17 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 2017/18 and to quantify the results.</p> <p>Our testing identified 7 cases where earned income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 3 cases and overpaid in 4 cases.</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 £7,666. 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 £7,666.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Rebates- Misclassification of overpayments: Technical	<p>In 2016/17 our testing identified 54 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 2017/18 and to quantify the results.</p> <p>Our testing identified 4 cases where the Technical overpayment should have been classified as an Eligible overpayment and 2 cases where the Technical 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 Technical overpayments by £11,374, understated Eligible overpayments by £8,369 and understated Local Authority Error overpayments by £3,005.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £3,348.</p>

POOLING OF HOUSING CAPITAL RECEIPTS

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 return provided for audit recorded total receipts of £2,807,400 all of which 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 an 'agreed-upon procedures' assurance report before the Government's deadline of 11 January 2019 for submitting the audited return.

FINDINGS AND IMPACT ON RETURN

The return was amended to include the actual amount of new-build expenditure, which was initially included at an incorrect value in the return. After making the amendment, there was a remaining difference of £36.41 between the value of prior period expenditure in the return, and the value reported in the prior period return. The Council were unable to explain this difference. This was noted in our 'agreed upon procedures' assurance report.

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 on form EOYCa, 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 of 30 November 2018 for submitting the audited return.

FINDINGS AND IMPACT ON RETURN

Our work is ongoing for this return and is expected to be completed by mid-April 2019.

Our testing to date identified that the total employer's contributions had been incorrectly included in the teacher's pension disclosure in form EOYC and that the total teacher's contributions had been incorrectly included in the employer's contributions disclosure in form EOYC.

Our work to date also identified some differences between the Council's payroll records and the form EOYC as follows:

- A difference of £321,240.38 between the total contributory salary reported by the Council's payroll records and the value reported in form EOYC.
- A difference of £23,792.46 between the total employer's contributions reported by the Council's payroll records and the value reported in form EOYC.
- A difference of £45,445.76 between the total teacher's contributions reported by the Council's payroll records and the value reported in form EOYC.

The Council is working to explain these differences before we issue our report to the Department for Education. The deadline of 30 November 2018 has been missed due to the additional time required to investigate these differences.

APPENDICES

APPENDIX I: STATUS OF PRIOR PERIOD RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
HOUSING BENEFITS					
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 Our 2017/18 audit evidences that the volume of errors identified has reduced significantly in comparison to 2016/17. It is possible that continuation of this checking process in 2018/19 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 Our 2017/18 audit evidences that the volume of errors identified has reduced significantly in comparison to 2016/17. It is possible that continuation of this training process in 2018/19 will further reduce this volume.
TEACHERS' PENSION					
Identify a more efficient way to extract the required information from the Agresso system.	High	Marie Kohler and Mike Miller	April 2017	The extraction process remains challenging and our work identified potential errors in the transfer of data from the payroll records to the EOYC form.	Open 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 However, no matters of this nature arose from our work in 2017/18.
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 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

	2017/18 FINAL	2017/18 PLANNED	2016/17 FINAL	EXPLANATION FOR VARIANCES
	£	£	£	
PSAA regime				
Certification fee (Housing benefit subsidy claim)	22,226	21,284	21,284	N/A
TOTAL PSAA REGIME FEES	22,226	21,284	21,284	
Other certification work				
• Pooling of Housing Capital Receipts return	3,500	3,500	3,500	N/A
• Teachers' pensions return	TBC	7,000	7,000	Final fee to be determined
TOTAL CERTIFICATION FEES	TBC	10,500	10,500	



FOR MORE INFORMATION:

LISA CLAMPIN
Engagement lead

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

LIANA NICHOLSON
Senior Manager

T: +44 (0)1473 320 715
E: liana.nicholson@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.

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