



SOUTHEND ON SEA BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2015

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INTRODUCTION

THE PURPOSE OF THIS REPORT

This report summarises the issues arising from the certification of grant claims and returns for the financial year ended 31 March 2015.

We undertake the certification of the housing benefits subsidy grant claim as an agent of Public Sector Audit Appointments Limited (PSAA) and in accordance with the Statement of Responsibilities. The methodology for the certification of the claim, including sample sizes, was set out in a Certification Instruction issued by the Audit Commission, before its demise in March 2015, after consultation with the Department for Work and Pensions (DWP).

We have also undertaken ‘reasonable assurance’ procedures on the teachers’ pensions return and the housing capital receipts return, under separate engagements with the Council as these returns no longer fall within PSAA’s certification regime. This work has been carried out in accordance with national Assurance Instructions agreed by the relevant government departments.

A summary of the fees charged for our work on these grant claims and returns for the year ended 31 March 2015 is shown to the right.

Appendix I of this report shows the Council’s progress against the action plan included in our prior year Grant Claims and Returns report (presented to the Audit Committee in January 2015). Appendix II contains a recommendation following our work on claims and returns for the year ended 31 March 2015.

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 work.

FEES

PLANNED FEE (£)

OUTTURN FEE (£)

Housing benefit subsidy

28,379

28,379

TOTAL PLANNED FEE

28,379

28,379

Teachers’ Pension Return

The audit of the Teacher’s Pension Return was removed from the Audit Commission regime in 2013/14 and is not included in the scale fee. However, the Department for Education requires the return to be audited and a separate term of engagement was agreed in accordance with the scope of work specified by the Government department. The fee for this work was £7,900.

Pooling of Housing Capital Receipts Return

The audit of the Pooling of Housing Capital Receipts Return was removed from the Audit Commission regime in 2014/15 and is not included in the scale fee. However, the Department for Communities and Local Government requires the return to be audited and a separate term of engagement was agreed in accordance with the scope of work specified by the Government department. The fee for this work was £2,650.

KEY FINDINGS

Summary of high level findings

CLAIM OR RETURN	FINAL VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£) ¹
Housing benefit subsidy	92,177,615	Yes	Yes	(47,357)
Teachers' pensions return	7,532,620	No	Yes	(127)
Pooled housing capital receipts	1,595,365	No	Yes	-

¹ A negative figure is a reduction in the amount payable to the government.

Detailed Findings

Below are details of each grant claim and return subject to certification or a reasonable assurance conclusion by BDO for the period ended 31 March 2015. Where our work identified matters which resulted in either an amendment or a qualification (or both) further information is provided. An action plan is included at Appendix II of this report.

Housing benefit subsidy

Local authorities responsible for managing housing 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 audit certification.

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 (DWP). We have no discretion over how this methodology is applied.

Findings and impact on claim

Our audit of 40 individual claimant files highlighted some errors in the Council's benefit administration and subsidy entitlement calculations. Our testing also required us to follow up on errors identified in the previous year. The errors mainly involved the incorrect recording of income and the misclassification of overpayments. The prescribed audit methodology requires that where errors are not considered to be 'isolated', additional samples are drawn and the impact of the error is quantified by extrapolating the test results. Accordingly, over 360 additional cases were reviewed covering all benefit types. This work was carried out by the Council on samples determined by BDO.

The Council has put in place a process to regularly check the values of income entered into the system for a claimant. As a result the number and value of errors identified for these cases have reduced compared to the previous year.

A large number of miss-classification errors were identified as a result of the extended testing. This did not have an impact on the subsidy receivable by the Council because the overpayments threshold had been breached. This means that the Council exceeded the tolerable limit for local authority error and administrative delay overpayments as set by the DWP. This means that the Council do not receive any subsidy for local authority error and administrative delay overpayments. For 2014/15 this means up to £480k subsidy lost for the Council.

The focus for the Council should be on reducing the number of local authority error and administrative delay overpayments. The Council's staff should continue with their checks on the accuracy of the data input (reducing the number of LA errors) and ensure that they are up to date with the processing of changes in circumstances (reducing the administrative delay overpayments).

The prescribed methodology requires auditors to re-perform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily recorded. From this re-performance work we determined that we were able to rely on the conclusions drawn by the Council. The audit of the grant claim was completed satisfactorily and the claim was certified before the Government's deadline of 30 November 2015. Our audit certificate was qualified and we quantified the effect of the errors identified on the Council's benefit expenditure (based on our extrapolations) in a letter to DWP. The Council is awaiting the final outcome of the DWP review of our qualification letter on its final subsidy amount for the year. Our qualification letter covered all of the benefit types awarded by the Council, as summarised overleaf.

Benefit type	Error type	Impact on claim
Rent Allowances- Misclassification of LA error overpayments	<p>Prior years testing identified 21 cases where the Council misclassified overpayments as local authority errors when they should have been classified as eligible overpayments. Testing was carried out to determine whether issues previously identified had continued in 2014/15.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of local authority overpayments by £132,345 and understated eligible overpayments by £132,345.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £52,938.</p>
Rent Allowances- Misclassification of Eligible overpayments	<p>Testing of our initial sample of 20 cases identified 1 case where the Council misclassified an overpayment as an eligible error when it should have been classified as a local authority error overpayment.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of eligible overpayments by £159,764 and understated local authority overpayments by £159,764.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £63,905.</p>
Rent Allowances- Misclassification of Eligible overpayments (Prior year)	<p>Prior years testing identified 5 cases where the Council misclassified overpayments as eligible errors when they should have been classified as local authority error overpayments. Testing was carried out to determine whether issues previously identified had continued in 2014/15.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of eligible overpayments by £92,121 and understated local authority overpayments by £92,121.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £36,848.</p>
Rent Allowances- Earned Income	<p>Prior years testing identified 2 cases where earned income had been incorrectly applied in the benefit calculations. Testing was carried out to determine whether issues previously identified had continued in 2014/15. This resulted in benefit being underpaid in 2 cases, overpaid in 1 case and 3 cases where it had no effect on the benefit paid.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £45,599. 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 £45,599.</p>

Benefit type	Error type	Impact on claim
Rent Allowances- Standard Income	<p>Testing of our Initial sample of 20 cases identified 1 case where the income (other than earned income) had been incorrectly entered in the benefit calculations.</p> <p>This resulted in benefit being underpaid in 6 cases, overpaid in 2 cases and 6 cases where it had no effect on the benefit paid.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £342. 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 £342.</p>
Rent Allowances- Non dependant Income	<p>Testing of our initial sample of 20 cases identified 1 case where the non-dependant income had been incorrectly entered in the benefit calculations.</p> <p>We identified 1 case where the income had been incorrectly entered but had no effect on the benefit paid.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £10,566. 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 £10,566.</p>
Rent Rebates- Standard Income	<p>Prior years testing identified 7 cases where child or working tax credits had been incorrectly applied in the benefit calculations. Testing was carried out to determine whether issues previously identified had continued in 2014/15. This resulted in benefit being underpaid in 2 cases, overpaid in 1 case and 4 cases where it had no effect on the benefit paid.</p>	<p>The overpayment was not extrapolated as it amounted to less than £1. There is no impact on the Council's entitlement to subsidy where an underpayment of benefit arises.</p>
Rent Rebates- Earned Income	<p>Prior years testing identified 4 cases where earned income had been incorrectly applied in the benefit calculations. Testing was carried out to determine whether issues previously identified had continued in 2014/15. This resulted in benefit being underpaid in 2 cases.</p>	<p>There is no impact on the Council's entitlement to subsidy where an underpayment of benefit arises.</p>
Rent Rebates- Misclassification of technical overpayments	<p>Prior years testing identified 21 cases where the Council misclassified overpayments as technical errors when they should have been either eligible overpayments or local authority overpayments. Testing was carried out to determine whether issues previously identified had continued in 2014/15. 40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated that the Council overstated the amount of technical overpayments by £19,921 and understated eligible overpayments by £18,616 and understated local authority overpayments by £1,305.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £7,446.</p>

Teachers' pensions contributions

Local authorities that employ teachers are required to deduct pension contributions and send them, along with employers' 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 EOYCa 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

A number of small amendments were made to the initial claim form submitted, these were as a result of the 'unpicking' of manual adjustments entered during the course of the year.

The Teachers' Pensions Office required us to report all differences identified. We noted the following key points:

- Our testing identified that the system was not including recruitment and retention payments in the pension banding calculation. Consequently, where employees were top of a band they would not be in the correct pension banding, affecting employee contributions. The Council identified all teachers that this affected and will amend the system in 2015/16, consequently the 2014/15 claim was not amended. This will result in an increase in contributions payable to Teachers' Pensions by £1,319.
- We identified small differences between the calculated expected employers' contribution figures (based upon the contributory salary for each band) and the total teachers' contribution figures included in the claim form. This is because a number of manual adjustments were put through during the year that related to previous periods and the current year. These transactions were posted together rather than separating them out between years - there are separate codes for previous years. As the contribution rates are not the same between the years, the Council was unable to fully disaggregate these manual adjustments. The majority of the adjustments were identified and moved to the correct banding however some small differences remained.

Our reasonable assurance report was unqualified and issued on 27 November 2015.

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.

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 'new build expenditure' of £198,742 that had been incorrectly excluded from the draft claim.

We issued an unqualified reasonable assurance report on 15 February 2016.

The national online logasnet system which we are required to use to certify the return was not available to auditors up to DCLG's deadline for certification of the return (30 November 2015). The issue was eventually resolved by the Logasnet administrators and the claim was certified on the 15 February 2016.



APPENDICES

APPENDIX I: STATUS OF 2012/13 & 2013/14 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
2012/13:					
<p>Housing benefit claim Carry out regular checking of a number of claims to ensure that:</p> <ul style="list-style-type: none"> Income has been input correctly. Overpayments have been correctly classified. 	High	<p>Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked.</p> <p>Team leaders to check high value Admin Delay overpayments to check correctly classified. To be reviewed regularly by Asst. Benefit Manager.</p>	<p>Asst Benefit Managers</p> <p>Team Leaders & Asst Benefit Manager</p>	January 14	<p>Previous testing identified a number of errors relating to earnings calculations and misclassification of overpayments.</p> <p>The Council implemented a process to check every 10th case to ensure that the earnings calculations were correct. Our initial and extended testing in respect of the 2014/15 claim identified a reduced number of errors in respect of earnings.</p> <p>The Council reviewed high value overpayments during the year to ensure that they were correctly classified. We continued to identify a number of misclassification errors. Further sample checking on the classification of overpayments is required.</p> <p>The recommendation has been partly implemented. A new recommendation relating to checking claims has been raised at Appendix II.</p>
<p>Housing benefit claim Review a sample of uncashed cheques included within cell 179 to ensure that they are appropriately included in this cell.</p>	Medium	Agreed will be added as a task for the QA team.	Asst Benefit Manager & Quality Assurance Team	June 2014	<p>Some errors were identified from our initial testing of uncashed cheques. As a result a 100% check was undertaken. This identified one uncashed cheques that could not be reconciled to the system or supporting documentation. A full review of uncashed cheques should be undertaken prior to next years' audit.</p> <p>This recommendation will continue to be monitored.</p>

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
2013/14:					
Teachers' Pensions claim Set up Agresso to take account of the TLR3 payments. Ensure that any new pay scales set by Teachers' Pension are set up correctly on the system.	Medium	Agreed. Agresso will be amended accordingly.	Sue Putt Group Manager	April 2015	Agresso has been amended. Recommendation has been implemented.
Teachers' Pensions claim Record the details of the period the refund related to on the HR system.	Low	Recording of refunds will be put in place.	Sue Putt Group Manager	February 2015	A separate Payment and Deduction recording is in place Recommendation has been implemented.

APPENDIX II: 2014/15 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p>Housing benefit claim</p> <p>There is a high volume of Local Authority error overpayments. As a result the Council breached the overpayments threshold and lost subsidy on these overpayments. This is as a result of incorrectly entering data upon receipt of claimant data then subsequently identifying and rectifying this.</p>	<p>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.</p>	High	<p>The volume of checking of officer's work has increased. This has resulted in improved accuracy being found in the area of earned income. The new benefits structure effective from April 2016 will allow for further increases of checking across a broader spectrum of work areas.</p>	Benefits Manager	April onwards
<p>Housing benefit claim</p> <p>Testing in the current and previous year has identified a number of overpayment misclassifications in the subsidy claim.</p>	<p>Provide specific targeted training to the benefits team on how to classify overpayments.</p>	High	<p>Agreed. As part of the new benefits structure effective from April 2016 there will be specific targeted training to the benefits team on the classification of overpayments.</p>	Benefits Manager	April onwards
<p>Teachers' Pensions claim</p> <p>A number of manual adjustments were made to the system that related to previous periods and the current year. These transactions were posted together rather than separating them out between years. As the contribution rates are not the same between the years, the Council was unable to fully disaggregate these manual adjustments.</p>	<p>All manual adjustments should be approved by the Senior HR & Payroll Technical Officer before they are processed.</p>	Medium	<p>Guidance given on Payments and Deductions in the system to ensure changes are made in the correct year by the team.</p> <p>Any adjustments required are advised to the team to complete and are checked by the Senior HR & Payroll Technical Officer.</p>	<p>Sue Putt Group Manager</p>	Implemented



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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