

# Audit and Governance Committee

## 28 November 2018



Working in partnership with **Eastbourne Homes**

**Time and venue:**

**6.00 pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG**

**Membership:**

**Councillor Dean Sabri (Chairman); Councillors Troy Tester (Deputy-Chair)  
Sammy Choudhury, Penny di Cara, Paul Metcalfe, Md. Harun Miah,  
Margaret Robinson and Barry Taylor**

**Quorum: 2**

*Published: Tuesday, 20 November 2018*

## Agenda

- 1 Minutes of the meeting held on 19 September 2018. (Pages 1 - 2)**
- 2 Apologies for absence.**
- 3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**
- 4 Questions by members of the public.**

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).
- 5 Urgent items of business.**

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.
- 6 Right to address the meeting/order of business.**

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.
- 7 Internal Audit report to 30 September 2018. (Pages 3 - 16)**

Report of Audit Manager (Eastbourne).

**8 Grant Claims and Returns Certification - year end 31 March 2017. (Pages 17 - 30)**

Report of external auditors (BDO).

## Information for the public

**Accessibility:** Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. This agenda and accompanying reports are published on the Council's website in PDF format which means you can use the "read out loud" facility of Adobe Acrobat Reader.

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**Public participation:** Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

## Information for councillors

**Disclosure of interests:** Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

**Councillor right of address:** Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (and no later than immediately prior to the start of the meeting).

## Democratic Services

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Working in partnership with **Eastbourne Homes**

## **Audit and Governance Committee**

**Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 19 September 2018 at 6.00 pm**

### **Present:**

Councillor Dean Sabri (Chairman)

Councillors Troy Tester (Deputy-Chair), Sammy Choudhury, Penny di Cara, Margaret Robinson, Barry Taylor and Tony Freebody (Reserve) (as substitute for Paul Metcalfe)

### **Officers in attendance:**

Pauline Adams, Head of Finance  
Jackie Humphrey, Audit Manager  
Janine Combrinck, BDO

### **Also in attendance:**

Katie Maxwell, Committee Officer

#### **40 Minutes of the meeting held on 25 July 2018.**

The minutes of the meeting held on 25 July 2018 were submitted and approved and the Chair was authorised to sign them as an accurate record.

#### **41 Apologies for absence.**

Apologies for absence were reported from Councillor Metcalfe MBE and Councillor Miah.

#### **42 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**

There were none.

#### **43 Internal Audit report - Quarter 1 April 1 to 30 June 2018.**

The Committee considered the report of the Internal Audit Manager regarding a summary of the activities of Internal Audit for the first quarter of the year. A list of all final audit reports issued from 1 April 2018 to 30 June 2018 and the level of assurance attained were detailed in the report.

Further information on reports issued in final during the year with an assurance level below “Performing Well” was set out in Appendix B, with any issues highlighted in the reviews which informed the assurance level given.

The committee was advised that one report had been issued with an assurance level of Inadequate. As this review covered the Safeguarding of Children an update on the current situation had been requested from the owners of the recommendations made. A full follow up would be carried out at the end of September, beginning of October.

Due to there being no outstanding actions relating to audits that were issued with an “inadequate assurance level” there was no appendix C.

Work undertaken by the Corporate Fraud team and East Sussex Counter Fraud Hub was also detailed in the report.

**Resolved: (Unanimous)** That the report be noted.

#### **44 17/18 Annual Audit Letter.**

The committee considered the report of BDO regarding the Annual Audit Letter, which set out the key findings of audit work for 2017/18. The report summarised the results of the audit work in respect of the Council’s financial statements, use of resources, exercise of statutory powers, grant claims and returns certification and any other matters.

Ms Janine Combrinck representing BDO was in attendance to present the report and respond to Members’ questions.

The Head of Finance advised the Members that with regard to BDO issuing their unmodified opinion on the financial statements on 4 August 2018, which was later than the expected date, as detailed in the letter, all documentation in relation to the Council’s accounts for 17/18 had been sent in good time to the auditors.

The delays in the issuing of the audit opinion were due to the new statutory deadline and the volume of Councils closing their accounts to the new, earlier timescale, and was not related to the Council being unable to provide the correct documentation within the required deadlines.

**Resolved: (Unanimous)** That the Annual Audit Letter for 2017/18 be noted.

The meeting ended at 6.17 pm

Councillor Dean Sabri (Chairman)

# Agenda Item 7

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	28th NOVEMBER 2018
<b>Subject:</b>	Internal Audit Report to 30 <sup>th</sup> September 2018
<b>Report Of:</b>	Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To provide a summary of the activities of Internal Audit for the first half of the year 1 <sup>st</sup> April 2018 to 30 <sup>th</sup> September 2018.
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirements.  That the committee considers and agrees the proposed performance indicators.
<b>Contact:</b>	Jackie Humphrey, Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@lewes-eastbourne.gov.uk

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## 1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2018/19 was agreed by the Audit and Governance Committee in March 2018.

## 2.0 Review of work carried out in the first half of the financial year 2018/19.

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2018 to 30<sup>th</sup> September 2018 is as follows:

*NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.*

Debtors (Annual 2017/18)	Performing Excellently
Housing Rents(Annual 2017/18)	Performing Well
Main Accounting (Annual 2017/18)	Performing Excellently
NNDR (Annual 2017/18)	Performing Excellently
Safeguarding	Performing Inadequately
Devolved Budgets	Performing Well

Contracts Monitoring	Performing Adequately
Corporate Credit Card Usage	Performing Excellently
Land Charges and Searches	Performing Well
Estates Management	Performing Well
Private Housing Grants	Performing Excellently

### Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

- 2.2 Appendix A shows the work carried out against the annual plan to the end of September 2018. It should be noted that at the beginning of June an Auditor left the team. Our part-time auditor agreed to work full-time from the beginning of August. However, it has been decided to hold the part-time post vacant whilst Phase 3 savings are being considered. This has impacted on the completion of the plan as set out for the year. Also, the Audit Manager has spent a lot of time setting up, testing and writing guides for the new Audit software meaning that she has been unable to spend as much time as usual in helping carry out audit reviews.
- 2.3 Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Well", with any issues highlighted in the reviews which informed the assurance level given.
- 2.4 The committee is reminded that these are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.
- 2.5 Where follow ups of reviews given an Inadequate assurance level show recommendations are not being addressed, the outstanding recommendations, and client comments from the report, will be listed at Appendix C. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.6 However, there is no appendix C attached to this report as there are no outstanding actions relating to audits that were issued with an "inadequate" assurance level.
- 2.7 Work is ongoing with setting up the new software for Audit. The initial set up phase is complete and this will be transferred to a test system so the set up can be tested and training will be given on its use in mid-September.

Progress will be further reported to the next meeting of the committee.

- 2.8 As touched on earlier, the work on setting up the new audit software system continues. Custom fields have been set up and the structure of the authorities' organisation input along with all the various areas/processes to be audited. A test audit has been input and a report successfully run. In September both audit teams (Eastbourne and Lewes) underwent two days of training provided by the supplier. Auditors are currently trialling the process in the test system. Guides are being written and differing procedures between the two teams are being aligned before work begins on the live system.
- 2.9. Work is progressing well on the 17/18 subsidy testing. The initial testing has been completed and reviewed by BDO who have raised some queries which are being worked through. Work is commencing on extra testing on areas where issues were identified in current and previous years.

### **3.0 Joint Service Performance Indicators**

- 3.1. The Head of Audit and Counter Fraud (HACF) has been reporting performance indicators to the Lewes Audit and Standards Committee for some years. As part of the process of aligning the work of Internal Audit, he has explored the possible performance indicators that could be reported to the committees at both Eastbourne and Lewes.
- 3.2 The HACF has examined the performance indicators that are applied to internal audit services in other local authorities. This research has included a review of the performance indicators that are recommended as best practice by professional accounting bodies such as CIPFA. There are no formal requirements for the performance indicators that are to be applied to internal audit but, as might be expected, there is a degree of uniformity in the performance indicators that are recommended for the function. The detail of the individual indicators may vary slightly across organisations in the different sectors, but there tends to be a focus the following aspects of internal audit activities.

Input of resources

Costs

Productivity and process efficiency

- 3.3. The HACF has looked to concentrate the range of performance information that is made available within this framework, and has focussed on those indicators for which performance and results are within the control of managers in the service.
- 3.4 The list of proposed performance indicators is shown below. These will cover the shared service in total, and there will not be separate results for staff working at Eastbourne and Lewes. Once agreed, the performance indicators will form the basis of annual reporting on Internal Audit performance.
- 3.5 The proposed performance indicators cover both Internal Audit and Counter Fraud functions, but not to the same extent. The HACF does not consider it appropriate

to have activity or results targets for Counter Fraud because of the reactive nature of much of the work, and so the focus is on service resources and costs.

- 3.6 Once agreed, the HACF will review the performance indicators on a regular basis to ensure that they remain relevant and provide useful data for monitoring and governance purposes. Any future changes to these will be subject to consultation with the Committee.

**Statement of proposed KPIs for the shared and Counter Fraud service.**

<b>Performance Indicator</b>	<b>Actual 2018/19</b>	<b>Target 2019/20</b>
<b>Internal Audit</b> <b>1</b> Staffing FTE <b>2</b> Employee costs <b>3</b> Total costs <b>4</b> Total chargeable days <b>5</b> Cost per chargeable day		
<b>Counter Fraud</b> <b>6</b> 5 Staffing FTE <b>7</b> Employee costs <b>8</b> Total costs <b>9</b> Total chargeable days <b>10</b> Cost per chargeable day		
<b>Internal Audit</b> <b>11</b> Number of core systems audits carried out in the year <b>12</b> Number of days spent on core audits <b>13</b> Number of days in the original annual audit plan <b>14</b> Number of days in the revised annual audit plan <b>15</b> % of revised annual audit plan carried out		

**4.0 Counter Fraud**

- 4.1. The Counter Fraud Team (CFT) have had further success in the test sample of NDR cases, with the removal of four small business rate reliefs and one incorrectly billed proprietor. This has resulted in a net income generated for the authority of £21k. Further activities are now planned using data matching exercises through the National Fraud Initiative and the application of data analytical software with our neighbouring authorities.

- 4.2 Right to Buy applications have doubled from the first quarter with 18 applications received in total. Of these, seven were withdrawn as part of the CFT involvement, resulting in a saving of £532k to the authority.

- 4.3 The team continue to work closely with Homes First with 26 ongoing sublet/abandonment/safeguarding tenancy cases at various stages. One case has just been heard at magistrates court over abandonment which was successful and is now waiting on further enforcement decision by Homes First. Seven other allegations were closed down in this period with no further action.
- 4.4 Work has also been undertaken with Homes First looking at a number of potentially fraudulent homeless presentations as well as the implementation of using the National Anti-Fraud Network facilities for credit checks for all new applications as a preventative measure.
- 4.5 The detailed review of Council Tax Exemptions and Disregards, looking at areas of weakness or where reviews have not been undertaken for some time, has highlighted an additional 34 Council Tax cases requiring further investigation and resulted in amendments to 26 of these accounts creating in excess of £50k in cash income.
- 4.6 The team are continuing to review Council Tax Reduction (CTR) applications which have not been re-assessed for over 2 years; this has resulted in finding over £36k in CTR overpayments and weekly incorrect reduction awards which are now recoverable. There has also been a consistent level of Housing Benefit activity through our Single Point of Contact (SPOC) work with the DWP, Housing Benefit Matching Service (HBMS) and a single case with a large historic misrepresentation. This has resulted in a combined recoverable overpayments of £114k and weekly incorrect benefit of £63k.
- 4.7 The team have completed the National Fraud Initiative exercise for 2016/17 and are now in the process of organising the data extraction for both Lewes and Eastbourne in preparation for the 2018/19 exercise. A more efficient and targeted approach will now be taken following the discovery of a small number of errors of 17k out of over 2000 files received in the last activity.
- 4.8. Appendix D shows the savings identified by the Counter Fraud team during the first half of 18/19.

## **5.0 Consultation**

- 5.1 Respective Service Managers and Heads of Service as appropriate.

## **6.0 Resource Implications**

- 6.1 Financial – Delivered within the approved budget for Internal Audit
- 6.2 Staffing – None directly as a result of this report.

## **7.0 Other Implications**

- 7.1 None

## **8.0 Summary of Options**

8.1 None

## **9.0 Recommendation**

9.1 That the information in this report be noted and members identify any further information requirements.

That the committee considers and agrees the proposed performance indicators.

**Jackie Humphrey**  
**Audit Manager (Eastbourne)**

**Background Papers:**

			Planned days	Actual days	Notes / Reason for Variance
ANNUAL REVIEWS	Benefits	Governance	15	0.3	Completing 17-18 review
	Cash and Bank	Governance	10		
	Council Tax	Governance	10		
	Creditors	Governance	15		
	Debtors	Governance	15		
	Housing Rents	Governance	15	5.4	Completing 17-18 review
	Main Accounting	Governance	10	0.4	Completing 17-18 review
	NDR (Business Rates)	Governance	10	0.1	Completing 17-18 review
	Payroll	Governance	10		
	Treasury Management	Governance	5		
	IT	Governance	4		
	Theatres Reconciliation	Governance	5		
	Claims work		115	80	Completing 16-17 and commencing 17-18 work
			<b>239</b>	<b>86.2</b>	
Page 9 EBC resources only	Corporate Credit Card Usage	Operational	10	10.3	Completed
	Theatres	Operational	20		
	Housing (inc EHL contract)	Operational	20		
	Land Charges and Searches	Operational	5	7	Completed
	Devolved Budgets	Operational	7	7	Completed
	Cafi - Purchasing	IT	10		
	Car Parking including permits	Operational	10	12	Draft
	Elections and Electoral Register	Operational	10	0	
	Cemeteries and Crematorium	Operational	10	11.4	Ongoing
	Officers Expenses	Operational	5		
	Use of Council Vehicles	Operational	8	6.4	Draft
	HMO licensing	Operational	10	1.3	Ongoing
	Postal Services	Operational	10	8	Ongoing
	Procurement (compliance with CPRs)	Operational	10		
			<b>145</b>	<b>63.4</b>	
Half EBC and half LDC resources	Arrears collection (across depts)	Operational	10		
	Estates Management	Operational	10	12.3	Completed
	Ethics	Operational	5		
	Customer Services	Operational	10		
			<b>35</b>	<b>12.3</b>	
Homes	Estate Management	Operational	10	2.5	Ongoing
	Void Management	Operational	10	0.3	Asked to postpone until new software in place
	Aids and Adaptations	Operational	10		
			<b>30</b>	<b>2.8</b>	

		Planned days	Actual days	Reason for Variance
Contingency		40		
Special Investigations/advice		25	8.8	
Follow ups re audits carried out in previous year and completion of audits begun in previous year		46	27.7	
		<b>111</b>	<b>36.5</b>	

**PLAN TOTAL**

<b>560</b>	<b>201.2</b>
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**APPENDIX B****Reasons for original assurance levels given (below Well)**

N.B. The issues noted here may have been addressed since the original report was issued.

**Quarters -1**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Safeguarding	Inadequate	<ul style="list-style-type: none"> <li>Recruitment policy does not reflect vetting processes detailed in the Safeguarding Policy</li> <li>“Safer recruitment” training required for certain staff.</li> <li>Inadequate records held to evidence checks being made.</li> <li>Not all relevant job descriptions explicitly mention Safeguarding responsibilities</li> <li>Retention and Disposal schedule is not clear on length of retention of documents.</li> </ul>	<p>Due October</p> <p>An interim follow up revealed that all recommendations were being addressed. A full follow up in underway to evidence this.</p>
Contracts Monitoring	Adequate	<ul style="list-style-type: none"> <li>A number of contracts in one area expired and no new contracts let.</li> <li>Formal meetings and ad hoc visits not being adequately recorded</li> <li>Contract details not held centrally</li> <li>No documented procedures for ensuring assets are returned at the end of a contract (e.g. keys).</li> </ul>	<p>Performing Well</p> <p>The expired contracts are being updated but this work is not yet complete.</p>

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NATIONAL FRAUD INITIATIVE	QUARTER ONE			QUARTER TWO			QUARTER THREE			QUARTER FOUR			YEAR TOTAL	
	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Income	Savings
Number of cases open	1			0										
Number of cleared cases	46			0										
Number of errors identified	10			0										
Number of frauds identified	0			0										
Overpayments identified			5,114.52			0.00								5,114.52
<b>HOUSING BENEFIT MATCHING SERVICE</b>														
Number of open matches	13			0										
Number of closed matches	109			94										
Overpayments identified			23,843.52			114,694.97								138,538.49
Weekly incorrect benefit identified			3,707.20			63,365.12								67,072.32
<b>OTHER INVESTIGATIONS</b>														
Number of open investigations	80			48										
Number of closed investigations	69			80										
Overpayments identified														0.00
Weekly incorrect benefit identified														0.00
Value of ongoing CT increase per week			20771.84			2,815.43								23,587.27
Increase in Council Tax liability			904.80			51,350.92								52,255.72
Recovery of Council property	3													0.00
Housing Intervention														0.00
CTR Excess			4,841.17			26,650.52								31,491.69
CTR WIB			5,819.20			10,061.12								15,880.32
NDR			2136			21,634.01						0.00		23770.01
Income from Adpen collection			1445.67									0.00		1445.67
Right To Buy interventions	4		319,000.00			532,557.51								851,557.51
<b>TOTALS</b>		<b>£0.00</b>	<b>£387,583.92</b>		<b>£0.00</b>	<b>£823,129.60</b>	<b>0</b>	<b>£0.00</b>	<b>£0.00</b>	<b>0</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£1,210,713.52</b>

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**TOTAL SAVINGS IDENTIFIED BY COUNTER FRAUD**

	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>18/19</b>	<b>TOTAL</b>
<b>Notional</b>						
HBMS WIBS	155,744.00	303,734.16	123,745.60	74,574.40	67,072.37	<b>724,870.53</b>
Other WIBS	179,841.00	110,978.24	132,284.80	51,682.11		<b>474,786.15</b>
Recovery of property		18,000.00	72,000.00	93,000.00		<b>183,000.00</b>
RTB interventions			2,043,924.00	2,310,550.00	851,557.51	<b>5,206,031.51</b>
CTR WIB				34,936.64	15,880.32	<b>50,816.96</b>
Value of ongoing C Tax increase per week				23,587.27		<b>23,587.27</b>
	<b>335,585.00</b>	<b>432,712.40</b>	<b>2,371,954.40</b>	<b>2,588,330.42</b>	<b>934,510.20</b>	<b>6,663,092.42</b>
<b>Cashable</b>						
Income from Court costs		120.00				<b>120.00</b>
Income from Adpens		8,299.84		2,400.01	1,445.67	<b>12,145.52</b>
	<b>0.00</b>	<b>8,419.84</b>	<b>0.00</b>	<b>2,400.01</b>	<b>1,445.67</b>	<b>12,265.52</b>
<b>Recoverable</b>						
NFI overpayments		121,808.93	9,940.05	12,424.73	5,114.52	<b>149,288.23</b>
HBMS overpayments	59,925.00	121,506.67	50,904.22	20,553.76	138,538.49	<b>391,428.14</b>
Other overpayments	200,553.00	72,882.09	151,331.27	11,336.50		<b>436,102.86</b>
SPD removal		3,451.66	961.17	2,872.82		<b>7,285.65</b>
Increase in Ctax liability		26,685.42	12,273.65	3,197.23	52,255.72	<b>94,412.02</b>
CTR excess				55,232.19	31,491.69	<b>86,723.88</b>
NDR				23,770.01		<b>23,770.01</b>
	<b>260,478.00</b>	<b>346,334.77</b>	<b>225,410.36</b>	<b>129,387.24</b>	<b>227,400.42</b>	<b>1,189,010.79</b>
	<b>596,063.00</b>	<b>787,467.01</b>	<b>2,597,364.76</b>	<b>2,720,117.67</b>	<b>1,163,356.29</b>	<b>7,864,368.73</b>

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# EASTBOURNE BOROUGH COUNCIL

## GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2017  
14 November 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 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 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 for the year ended 31 March 2017.

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).

## KEY FINDINGS

Below are details of 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 on the following pages. An action plan is included at Appendix II of this report.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS AND QUALIFICATIONS(£)
Housing benefit subsidy	£48,624,385	YES	YES	<p>The audit amendments decreased the subsidy claimed by £1,381.</p> <p>DWP has confirmed that it has decided to recover a further £134,598 of overpaid housing benefit subsidy from the audited claim, as a result of issues reported in the audit qualification letter.</p>
Pooling of housing capital receipts	£2,347,974	NO	YES	No impact on total housing capital receipts subject to pooling

## 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 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 PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £48,625,703. The final submission was reduced by £1,318 to £48,624,385.

### 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 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 as an observation within our qualification letter.

This resulted in three areas of 40+ testing, 100% testing on non-HRA cases including tax credits (46 cases) and significant additional testing on manual adjustments, resulting in four different types of amendments to the claim form.

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.

Our work was completed and the claim was certified on 31 August 2018, which was significantly later than the national deadline of 30 November. This was due to the large volume of additional testing required as a result of errors identified in the current year, particularly around cases with manual 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 DWP has communicated to the Council that it has decided to recover £134,598 of overpaid housing benefit subsidy from the audited claim, as a result of issues reported in the audit qualification letter. A summary of our audit findings can be found on the following pages.

## DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
<b>QUALIFICATION ISSUES</b>		
Rent allowances	<p><b>Eligible overpayments</b></p> <p>Testing of the initial sample identified one case where the overpayment was incorrectly classified as an eligible overpayment instead of a local authority (LA) and administrative delay overpayment.</p> <p>Extended testing on 40 cases identified a further three cases (total error value £1,649) where the overpayment was incorrectly classified as eligible overpayments instead of LA error and administrative delay overpayments. One case was identified (total error value of £600) where the overpayment was incorrectly classified as a current year eligible overpayment instead of an eligible overpayment from prior years.</p>	<p>We extrapolated the identified errors over the untested population and reported in our qualification letter that eligible overpayments attracting 40% subsidy was overstated by £39,148, LA error and administrative delay overpayments attracting £nil subsidy understated by £28,813 in the current year and £10,335 in the prior year. No adjustment was made to the claim form, However, DWP has notified the Council that it will recover £21,860 of over-claimed subsidy, being 40% of the £28,813 and the £10,335.</p>
HRA rent rebates	<p><b>Qualifying pension age</b></p> <p>Testing of the initial sample identified one case where the Council had overpaid benefit as a result of the incorrect qualifying pension age being used by the system to calculate benefit entitlement.</p> <p>The software supplier was notified and a total of 26 cases were identified as applying the incorrect qualifying pension age.</p> <p>Two of the cases had already been corrected in the system in 2017/18 and the rest were corrected in 2018/19. Ten case corrections impacted on subsidy claimed.</p>	<p>We reported in our qualification letter that the Council did not adjust the 2016/17 claim form for this issue, as any manual adjustments to subsidy in 2016/17 would need to be reversed by compensating manual adjustments in the year in which they were corrected in the system.</p> <p>The effect of these errors on the 2016/17 claim was that HRA rent rebate expenditure attracting full rate subsidy was overstated by £2,585 and LA error and administrative delay overpayments attracting £nil subsidy was understated by this amount.</p> <p>No adjustment was made to the claim form.</p>

## DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
<b>QUALIFICATION ISSUES</b>		
Non-HRA rent rebates, HRA rent rebates and rent allowances	<p><b>Errors arising from manual adjustments</b></p> <p>The Council identified negative entries in a cell relating to non-HRA rent rebate expenditure attracting full rate subsidy (total error value £6,294) caused by manual adjustments incorrectly processed in a number of cases. These were corrected during 2017/18 and a revised claim was submitted for audit in January 2018.</p> <p>In addition, audit testing identified further errors caused by manual adjustments:</p> <ul style="list-style-type: none"> <li>• One HRA rent rebates case where a manual adjustment made in 2016/17 resulted in duplicate payments and misclassifications between cells on the claim form</li> <li>• One rent allowances case where a manual adjustment made in 2016/17 resulted in an overstatement of one cell and an understatement of another cell.</li> </ul> <p>As a result of these errors, the Council obtained a report from the software supplier of all cases with manual adjustment. This impacted 164 claims, although 45 of these carried no subsidy.</p> <p>Extended testing on 40 cases (which included all cases greater than £1,000) indicated that Council staff have been using manual adjustment error codes to try to achieve a particular outcome on a claim, without always knowing the full subsidy impact of using particular error codes. In some cases, when users did not get the result they were expecting they tried to reverse the entries but in other cases continued using different error codes, thereby compounding the problem and making it difficult to unpick the adjustments.</p>	<p>The Council adjusted its claim form for the known errors. Where it was not able to determine the correct treatment, is adjusted the claim by transferring the manual adjustment amounts to overpayment cells that do not attract any subsidy. We reported this issue in our qualification letter.</p> <p>These amendments to the claim form contributed to an overall reduction in subsidy claimed by £1,381.</p> <p>The total LA error and administrative delay overpayments on the revised claim form amounted to £207,105. DWP has notified the Council that it has increased this figure to £235,918, as a result of issues reported in our qualification letter. This is above the lower threshold and therefore it will be recovering a further £112,738 of over-claimed subsidy in respect of LA error overpayments.</p>

## DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
<b>OBSERVATIONS</b>		
Non-HRA rent rebates	<p><b>Underpaid benefit due to incorrect tax credit information</b></p> <p>Testing of the initial sample identified one case where benefit paid had been underpaid as a result of the Council using incorrect tax credit information.</p> <p>Extended testing on all 45 cases with child tax or working tax credits did not identify any further errors.</p>	As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified do not affect subsidy and were not classified as errors for subsidy purposes.
HRA rent allowances	<p><b>Underpaid benefit due to incorrect earned income</b></p> <p>Prior year testing identified errors in respect of earned income calculations.</p> <p>No errors of this type were found in the initial sample of 20 cases tested in the current year.</p> <p>Extended testing on 40 cases identified two cases where benefit had been underpaid as a result of the Council overstating earned income.</p>	As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified do not affect subsidy and were not classified as errors for subsidy purposes.

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
<b>CLAIM ADJUSTMENTS</b>		
Modified schemes	<p><b>Underpaid benefit due to incorrect tax credit information</b></p> <p>Testing of all modified scheme cases found that war widows' pension had been understated by £2,573 in one case.</p> <p>In addition, the draft claim form did not correctly take account of negative manual adjustments from the prior year.</p>	These errors were amended in the final claim form.

## DETAILED FINDINGS

### 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 £2,347,974 of which £924,765 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

Our audit identified one adjustment in respect of new-build expenditure in the year, which resulted in the amount of this expenditure disclosed in the return reducing by £1,450,000 to £457,850.

New-build expenditure is disclosed in the return as information for DCLG and does not impact on total housing capital receipts subject to pooling.



## APPENDIX I: STATUS OF 2015/16 RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
We recommend that additional checks are carried out to ensure that overpayments and backdated payments are classified correctly and that earnings are calculated accurately.	High	Senior Specialist Advisor	April 2017	Our 2016/17 identified issues with classification of overpayments and therefore this recommendation is carried forward in Appendix II.	Open
We recommend that issues identified in respect of modified schemes are followed up with Capita and 'bug fixes' are applied. If 'bug fixes' are not issued by CIVICA we recommend that the cases are manually corrected in the CIVICA system.	High	Senior Specialist Advisor	April 2017	No similar errors identified in the 2016/17 audit.	Closed

## APPENDIX II: 2016/17 RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p><b>Overpayments</b> Our audit in 2016/17 identified a number of issues in respect of the incorrect classification of overpayments.</p>	We recommend that additional checks are carried out to ensure that overpayments are correctly classified.	High	[Comment here]	[Officer]	[Date]
<p><b>Manual adjustments</b> Our audit in 2016/17 identified a large number of errors caused by manual adjustments, where staff had used manual adjustment error codes to try to achieve a particular outcome on a claim, without always knowing the full subsidy impact of using particular error codes.</p>	We recommend that management review the error codes being used for manual adjustments and limit the access to, and use of, these codes.	High	[Comment here]	[Officer]	[Date]

## APPENDIX III: FEES SCHEDULE

	2016/17 FINAL	2016/17 PLANNED	2015/16 FINAL	EXPLANATION FOR VARIANCES
	£	£	£	
<b>PSAA regime</b>				
Certification fee (Housing benefit subsidy claim)	20,000	11,310	8,297	We have incurred additional cost in our work on the 2016/17 housing benefits subsidy claim due to the significant level of manual adjustment errors identified and consequent delays in completion of the audit. We have therefore agreed an additional fee with management. This is subject to approval by Public Sector Audit Appointments Limited.
<b>TOTAL PSAA REGIME FEES</b>	<b>20,000</b>	<b>11,310</b>	<b>8,297</b>	
<b>Other certification work</b>				
Pooling of Housing Capital Receipts return	1,500	1,500	1,500	N/A
<b>TOTAL CERTIFICATION FEES</b>	<b>21,500</b>	<b>12,810</b>	<b>9,797</b>	

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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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