



EASTBOURNE BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2016



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INTRODUCTION

Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2016.

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 grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by PSAA and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Department for Communities and Local Government (DCLG) for the pooling of housing capital receipts return for the year ended 31 March 2016.

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.

Fees

We reported our original fee proposals in our Planning Report. We have not had to amend our planned fees.

| AUDIT AREA | PLANNED FEES (£) | FINAL FEES (£) |
|--|------------------|----------------|
| PSAA regime | | |
| Housing benefits subsidy claim | 8,297 | 8,297 |
| Other certification work | | |
| Pooling of housing capital receipts return | 1,500 | 1,500 |
| Total certification fees | 9,797 | 9,797 |

KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2016. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan is included at Appendix I of this report.

| CLAIM OR RETURN | VALUE (£) | QUALIFIED | AMENDED? | IMPACT OF AMENDMENTS (£) |
|-------------------------------------|-------------|-----------|----------|--|
| Housing benefit subsidy | £50,007,348 | YES | NO | No amendments made to claim |
| Pooling of housing capital receipts | £1,472,550 | NO | YES | No impact on total housing capital receipts subject to pooling |

HOUSING BENEFIT SUBSIDY

FINDINGS AND IMPACT ON RETURN

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 £50,007,348. No amendments were made as a result of the audit.

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 within our qualification letter.

This resulted in:

- All HRA rent rebate backdated payment cases were tested due to errors in the 2015/16 initial sample testing
- 40 earned income rent allowance cases were tested due to prior year calculation errors
- 40 rent allowance overpayments cases were tested due to classification errors in 2015/16 additional testing
- All modified scheme cases were tested because of prior year issues and a significant increase in the 2015/16 case load.

PSAA's methodology requires auditors to reperform 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 21 December 2016. Our audit certification was qualified and we quantified the effect of the errors identified on the Council's entitlement to subsidy in a letter to DWP. The Council is awaiting the outcome of the DWP review of our qualification letter on its final subsidy amount for the year. A summary of our audit findings can be found on the following pages.

DETAILED FINDINGS

| Benefit type | Error description | Impact on claim |
|-----------------|--|--|
| HRA Rent Rebate | <p>Backdated payments</p> <p>Initial testing identified one case where expenditure that attracts full subsidy had been classified as backdated expenditure in error. The impact of this error meant that backdated payments on the claim form were overstated by £1,242, although this had no impact on subsidy.</p> <p>Testing of the remaining population of backdated payments (38 cases), found a further four cases where expenditure had been classified as backdated payments in error. The impact of this error meant that backdated payments in the claim form were overstated by £902, although this had no impact on subsidy.</p> | <p>Backdated payments overstated by £2,144 (no impact on subsidy).</p> <p>No adjustment was made to the claim form.</p> |
| Rent Allowances | <p>Earned income calculations</p> <p>No errors were identified in respect of incorrect earned income calculations as part of the 2015/16 initial 20 case testing, which had 5 cases with earned income. However, due to prior year errors in respect of incorrect earned income calculations, an additional sample of 40 cases was tested. This testing identified the following errors:</p> <ul style="list-style-type: none"> An underpayment of £286 because incorrect employment hours had been used to calculate the claimant's income and as a result an additional earned income disregard had not be applied. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified did not affect subsidy and was not classified as an error. An overpayment of £21 because the frequency of the claimant's earnings was input incorrectly. This error was extrapolated over all earnings cases in the LHA Expenditure cell on the claim form and this resulted in the cell being overstated by £4,835 and the LA error overpayment cell being understated by £4,835. | <p>LHA expenditure attracting full subsidy was overstated by £4,835.</p> <p>LA error overpayment attracting £nil subsidy was understated by £4,835.</p> <p>No adjustment was made to the claim form.</p> |

DETAILED FINDINGS

| Benefit type | Error description | Impact on claim |
|-----------------------------|---|---|
| Rent Allowances (continued) | <p>Classification of overpayments</p> <p>No errors were identified in respect of overpayment classifications as part of the 2015/16 initial 20 case testing, which included 2 cases in the eligible overpayments cell. The Council tested all current year eligible overpayment cases over £1,500 (due to classifications errors identified in the prior year audit) and all errors identified were corrected in 2016/17 before the start of the audit. Additional testing of 40 cases was carried out on current year eligible overpayment cases below £1,500 as part of the audit (cases below £1,500 accounted for 69% of the total eligible overpayment cell value).</p> <p>Additional testing of 40 eligible overpayment cases under £1,500 identified three cases (total error £1,183), where the overpayment should have been classified as LA error and administrative delay overpayments, rather than eligible overpayments. In addition, our testing of modified schemes identified one case (total error £84) where the overpayment was incorrectly classified as eligible overpayments rather than LA error and administrative delay overpayments.</p> <p>As a result of the classification errors identified in the eligible overpayments cell, we calculated an extrapolation percentage and used this to estimate the total error in the remaining untested population. This resulted in the eligible overpayments cell being overstated by £27,063 and the LA error and administrative delay overpayments cell being understated by £27,063.</p> | <p>Eligible overpayments attracting 40% subsidy overstated by £27,063.</p> <p>LA error and administrative delay overpayments attracting £nil subsidy understated by £27,063.</p> <p>No adjustment was made to the claim form.</p> |

DETAILED FINDINGS

| Benefit type | Error description | Impact on claim |
|-----------------|--|---|
| HRA Rent Rebate | <p>Modified schemes</p> <p>All ten cases in the cell were tested and the following errors were identified:</p> <ul style="list-style-type: none"> Four cases included expenditure that had been classified as local scheme expenditure however these cases did not include a 'local scheme' element and therefore the expenditure had been misclassified. This resulted in an overstatement of the local scheme expenditure cell and an understatement of the HRA rent rebate expenditure cell (and consequently the HRA rent rebate headline cell) amounting to £2,994. The Council has raised this issue with CIVICA who were testing a 'bug fix' to be rolled out to CIVICA sites to correct this issue. One case where earnings were input incorrectly resulting in overpaid benefit amounting to £93. This resulted in an overstatement of the local scheme expenditure cell and an understatement of the HRA rent rebate expenditure cell (and consequently the HRA rent rebate headline cell). | <p>Local scheme expenditure attracting 75% subsidy overstated in total by £3,087.</p> <p>HRA rent rebate expenditure attracting full subsidy understated in total by £3,087.</p> <p>No adjustment was made to the claim form.</p> |

DETAILED FINDINGS

| Benefit type | Error description | Impact on claim |
|-----------------|--|---|
| Rent allowances | <p>Modified schemes</p> <p>All 56 cases in the cell were tested and the following errors were identified:</p> <ul style="list-style-type: none"> 15 cases included expenditure that had been classified as modified schemes however these cases did not include a 'local scheme' element and therefore the expenditure had been misclassified. This resulted in an overstatement of the local scheme expenditure cells and an understatement of the rent allowances expenditure headline cell amounting to £3,756. The Council estimated a corresponding understatement of cells attracting full subsidy totalling £2,885 and an understatement of a cell attracting 40% subsidy amounting to £871. The Council raised this issue with CIVICA who are testing a 'bug fix' to be rolled out to CIVICA sites to correct this issue. One case amounting to -£113 was included in the local scheme expenditure cell. The case included pre & post 73 war widows pension which had been correctly disregarded and full award should have been paid under Modified Schemes however the award had been posted to statutory scheme and a negative amount has been included in the local schemes expenditure cell. This resulted in an understatement of the local expenditure scheme cells by £4,919, and a corresponding overstatement of the rent allowances expenditure cell attracting full subsidy. This issue was also raised with CIVICA. Two underpayments amounting to £3. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes. | <p>Local scheme expenditure attracting 75% subsidy understated in total by £1,163.</p> <p>Rent allowances expenditure cells attracting full subsidy overstated in total by £2,034.</p> <p>Rent allowances eligible overpayments cell attracting 40% subsidy understated in total by £871.</p> |

DETAILED FINDINGS

| POOLING OF HOUSING CAPITAL RECEIPTS | FINDINGS AND IMPACT ON RETURN |
|---|--|
| <p>Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.</p> <p>The return provided for audit recorded total housing capital subject to pooling of £1,472,550.</p> <p>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.</p> | <p>Our audit identified two adjustments in respect of new-build expenditure in the year, which resulted in the amount of this expenditure disclosed in the return reducing by £125,670, to £1,065,064.</p> <p>New-build expenditure is disclosed in the return as information for DCLG and does not impact on total housing capital receipts subject to pooling.</p> |

APPENDICES

APPENDIX I: 2015/16 ACTION PLAN

| CONCLUSIONS FROM WORK | RECOMMENDATIONS | PRIORITY | MANAGEMENT RESPONSE | RESPONSIBILITY | TIMING |
|--|--|----------|--|---------------------------|----------------|
| <p>HRA rent rebate backdated payments incorrectly classified.</p> <p>Rent allowances earned income cases had been incorrectly calculated.</p> <p>Rent allowances overpayment cases incorrectly classified.</p> | <p>We recommend that additional checks are carried out to ensure that overpayments and backdated payments are classified correctly and that earnings are calculated accurately.</p> | High | <p>Funding allocated to procure a resource to do additional checks in these areas alongside the in- house checking regime.</p> | Senior Specialist Advisor | April 2017 |
| <p>HRA rent rebate and rent allowances modified schemes cases had been incorrectly classified as modified schemes.</p> | <p>We recommend that issues identified in respect of modified schemes are followed up with Capita and 'bug fixes' are applied.</p> <p>If 'bug fixes' are not issued by CIVICA we recommend that the cases are manually corrected in the CIVICA system.</p> | High | <p>Upskilling of specialists in this area to enable manual correction where required.</p> | Senior Specialist Advisor | April/May 2017 |

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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