



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.

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
QUALIFICATION ISSUES		
Rent allowances	<p>Eligible overpayments</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>Qualifying pension age</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
QUALIFICATION ISSUES		
Non-HRA rent rebates, HRA rent rebates and rent allowances	<p>Errors arising from manual adjustments</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"> • 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 • 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. <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
OBSERVATIONS		
Non-HRA rent rebates	<p>Underpaid benefit due to incorrect tax credit information</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>Underpaid benefit due to incorrect earned income</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
CLAIM ADJUSTMENTS		
Modified schemes	<p>Underpaid benefit due to incorrect tax credit information</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.

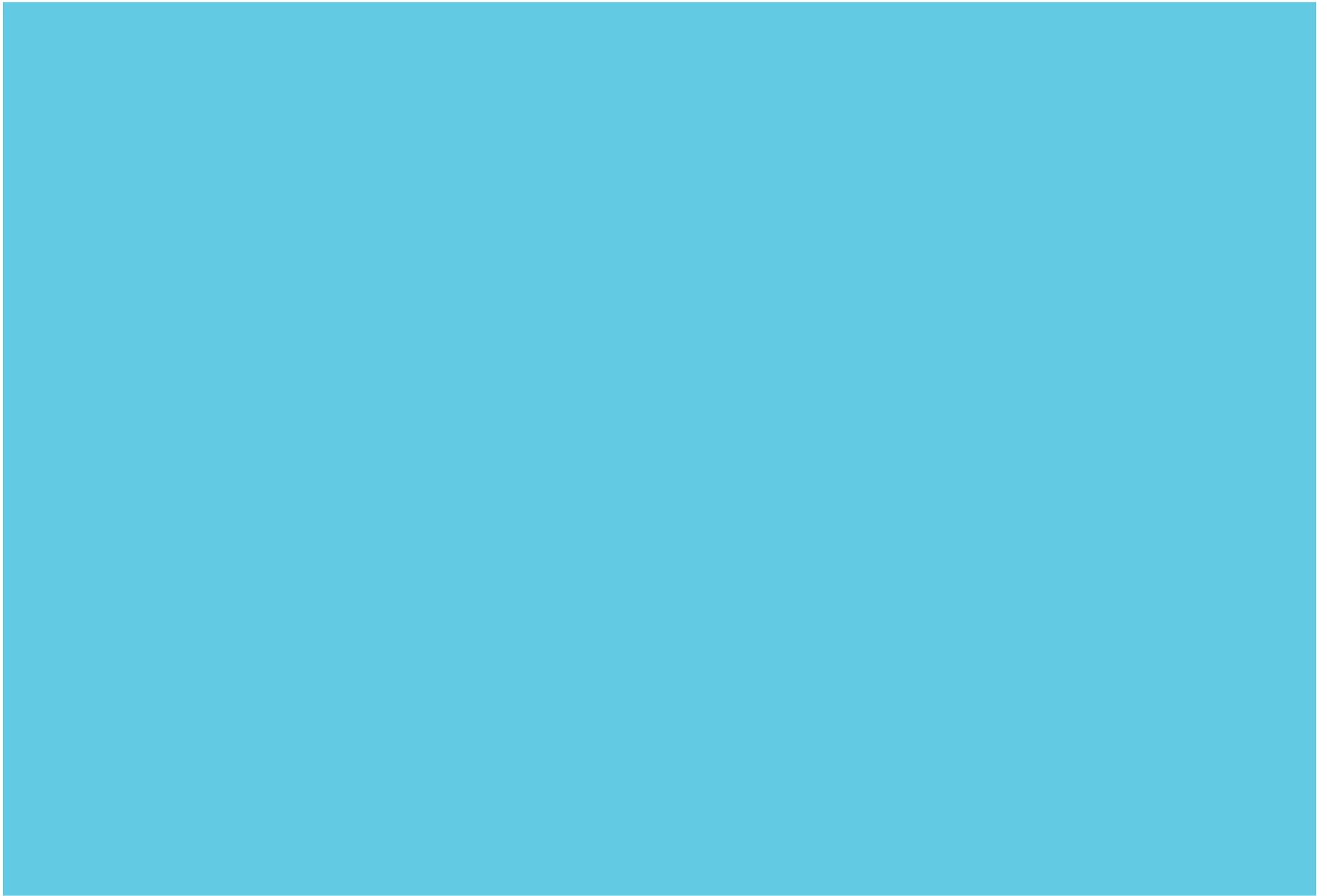
The return provided for audit recorded total receipts of £2,347,974 of which £924,765 was payable to DCLG.

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>Overpayments 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>Manual adjustments 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
	£	£	£	
PSAA regime				
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.
TOTAL PSAA REGIME FEES	20,000	11,310	8,297	
Other certification work				
Pooling of Housing Capital Receipts return	1,500	1,500	1,500	N/A
TOTAL CERTIFICATION FEES	21,500	12,810	9,797	



FOR MORE INFORMATION:

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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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