

04 March 2019

Dear Members of the Audit and Governance Committee,

**Audit and Governance Committee - 6 March 2019**

I am now able to enclose, for consideration, the following report at the above meeting that was/were unavailable when the agenda was printed.

**Item   Item  
No**

- 10      BDO grant claims and returns certification report 2017/18** (Pages 1 - 18)  
Report of external auditors (BDO)

Yours sincerely,

Committee Services  
[committees@lewes-eastbourne.gov.uk](mailto:committees@lewes-eastbourne.gov.uk)  
01323 410000

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## **EASTBOURNE BOROUGH COUNCIL**

### **GRANT CLAIMS AND RETURNS CERTIFICATION**

For the year ended 31 March 2018  
1 March 2019



# INTRODUCTION

## PURPOSE AND USE OF THIS REPORT

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2018.

### Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

### Other certification work

A number of other grant claims and returns are not within the scope of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council engaged us to carry out agreed-upon procedures, based on the instructions and guidance provided by the Ministry of Housing, Communities and Local Government (MHCLG), of the Pooling of housing capital receipts return the year ended 31 March 2018.

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).

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## KEY FINDINGS

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

CLAIM OR RETURN	FINAL VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS(£)
Housing benefit subsidy	£45,906,867	YES	YES	Decrease subsidy receivable by £24,264
Pooling of housing capital receipts	£3,548,939	NO	YES	Increase receipts subject to pooling by £36,400; no impact on amount payable to MHCLG

## 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 £45,931,131. The final submission was decreased by £24,264, to £45,906,867.

### 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 within our qualification letter.

This resulted in seven areas of 40+ testing, three areas of additional testing and nine amendments to the claim form.

All testing was carried out by the Council's internal auditors and a sample of their work was reperformed by BDO.

This work was completed and the claim was certified on 27 February 2019. This was after DWP's deadline of 30 November 2018, due to significant delays in the certification of the 2016/17 housing benefits claim, which impacted the timing of the audit work on the 2017/18 claim.

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 DWP.

A summary of our audit findings can be found on the following pages.

The Council is awaiting a response from DWP to the qualification letter.

While the total of the uncorrected issues reported below indicate a potential overstatement of subsidy claimed of £7,197, the majority of this is not expected to be clawed back by DWP due to the application of threshold limits on the claim form.

## DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<b>NON-HRA RENT REBATES</b>	
<p><b>Incorrect rent</b>            Testing of the initial sample identified one case (total error value £18) where benefit paid had been underpaid as a result of the Council using incorrect rent information.</p> <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and was not, therefore, classified as an error for subsidy purposes. However, as errors in rent inputs could result in overpayments of benefits, an additional random sample of 40 cases was selected for testing.</p> <p>The additional testing did not identify any cases where the rent had been incorrectly applied to the claim.</p>	<p>This had no impact on subsidy claimed.</p> <p>We reported this issue as an observation in our qualification letter to DWP.</p>
<b>HRA RENT REBATES</b>	
<p><b>Affordable rents scheme Section 151 Officer's notification</b>            We noted that the required S151 Officer's notification to MHCLG regarding the Council's affordable rents in cell 060 on the claim form had been drafted but not sent at the time of the audit. We were able to agree the claims selected to the letter that was subsequently sent by the Council to MHCLG.</p>	<p>This had no impact on subsidy claimed.</p> <p>We reported this issue as an observation in our qualification letter to DWP.</p>

# DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<b>HRA RENT REBATES (CONTINUED)</b>	
<p><b>Incorrect rent</b></p> <p>Testing of the initial sample identified one case (total error value £75) where the Council had overpaid benefit as a result of applying the incorrect rent.</p> <p>The initial testing also identified one case (total error value £229) where benefit had been underpaid as a result of the Council applying the incorrect rent. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and was not, therefore, classified as an error for subsidy purposes.</p> <p>These issues arose due to an incorrect interface between the housing rent system and benefit revenue system therefore the Council carried out a 100% check on all affected HRA rent rebates cases. The testing identified five further cases (total error value £764) where the Council had overpaid benefit in 2017/18 and 2016/17 as a result of applying the incorrect rent. Four of these errors (total error value £719) had already been amended on the benefits system in 2018/19.</p> <p>However, one of the errors (error value £45) was identified and amended at the time of testing.</p> <p>Manual amendments were not made to the 2017/18 claim form as the overpayments were recorded in 2018/19.</p>	<p>The effect of the identified errors where benefit was overpaid was as follows:</p> <ul style="list-style-type: none"> <li>Cell 061 ‘HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]’ was overstated by £839 (attracts full subsidy)</li> <li>Cell 065 ‘LA error and administrative delay overpayments’ was understated by £839 (attracts no subsidy).</li> </ul> <p>As a result, subsidy claimed was overstated by £839. The claim form was not amended for this error and we reported it as an observation in our qualification letter to DWP.</p>

## DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<b>HRA RENT REBATES (CONTINUED)</b>	
<p><b>Incorrect qualifying pension age</b></p> <p>Testing in the previous year identified one case (total error value £122) 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. Two cases had already been corrected in the system in 2017/18 and the rest were corrected in 2018/19. The 2017/18 claim form was not amended as an adjustment had been made to the benefits system in 2018/19.</p>	<p>The effect of these errors on the 2017/18 claim is to understate cell 065 by £592, with a corresponding overstatement of cell 061; there is no effect on cell 055.</p> <p>The effect of the identified errors was as follows:</p> <ul style="list-style-type: none"> <li>Cell 065 'LA error and administrative delay overpayments' was understated by £592 (attracts no subsidy)</li> <li>Cell 061 'HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]' was overstated by £592 (attracts full subsidy)</li> </ul> <p>As a result, subsidy claimed was overstated by £592. The claim form was not amended for these errors and we reported it as an observation in our qualification letter to DWP.</p>
<b>RENT ALLOWANCES</b>	
<p><b>Misclassification of overpayments</b></p> <p>Testing of the initial sample (6 with eligible overpayments) did not identify any cases where eligible overpayments were misclassified. However, due to the errors found in the prior year, an additional random sample of 40 cases was selected for testing from the eligible overpayments cell.</p> <p>The additional testing identified one case (total error value £538), where the overpayment was incorrectly classified as eligible overpayments instead of LA error and administrative delay overpayment.</p> <p>These errors resulted in misclassifications between cells on the claim form and an overstatement of subsidy claimed.</p> <p>We extrapolated the errors over the remaining population of untested cases.</p>	<p>The effect of the extrapolated error was as follows:</p> <ul style="list-style-type: none"> <li>Cell 114 'Eligible overpayments' was overstated by £14,329 (attracts 40% subsidy)</li> <li>Cell 113 'LA error and administrative delay overpayments' was understated by £14,329 (attracts no subsidy).</li> </ul> <p>As a result, subsidy claimed was potentially overstated by £5,732. The claim form was not amended for the extrapolated error and we reported this in our qualification letter to DWP.</p>

## DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<b>RENT ALLOWANCES (CONTINUED)</b>	
<p><b>Earned income</b></p> <p>The additional testing on the random sample of 40 cases above also identified two cases (total error value £34) where earned income was incorrectly input.</p> <p>Additional testing was undertaken on earned income as a result of errors identified in the previous year; this did not identify any issues.</p> <p>The identified errors were not corrected in the 2017/18 claim as they had been corrected in the system in 2018/19.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> <li>Cell 114 'Eligible overpayments' was understated by £34 (attracts 40% subsidy)</li> <li>Cell 103 'LHA expenditure' was overstated by £34 (attracts full subsidy).</li> </ul> <p>As a result, subsidy claimed was overstated by £20. The claim form was not amended for the error and we reported it in our qualification letter to DWP.</p>
<p><b>Incorrect family premium rate</b></p> <p>Testing of the 20 initial sample (two with family premium) identified one case (total error value £19) where benefit had been underpaid as a result of the Council applying the incorrect family premium rate. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and was not, therefore, been classified as an error for subsidy purposes.</p> <p>However, as errors in the family premium rate could result in overpayments of benefits, an additional random sample of 40 cases was selected for testing from a sub-population of cases that included family premium as part of the benefit assessment.</p> <p>The additional testing did not identify any further cases where family premium rate has been incorrectly applied to the claim.</p>	<p>This had no impact on subsidy claimed.</p> <p>We reported this issue as an observation in our qualification letter to DWP.</p>

## DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<b>RENT ALLOWANCES (CONTINUED)</b>	
<p><b>Incorrect rent</b> Testing of the 20 initial sample identified one case where the Council had used the incorrect rent, although this had no impact on entitlement in the year. However, as errors in rent inputs could result in overpayments of benefits, an additional random sample of 40 cases was selected for testing. The additional testing did not identify any further cases where the rent had been incorrectly applied to the claim.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> <li>Cell 114 'Eligible overpayments' was understated by £24 (attracts 40% subsidy)</li> <li>Cell 103 'LHA expenditure' was overstated by £24 (attracts full subsidy).</li> </ul> <p>This had no impact on subsidy claimed. As a result, subsidy claimed was overstated by £14. The claim form was not amended for the error and we reported it in our qualification letter to DWP.</p>
<p><b>Backdated expenditure</b> Testing of the initial sample of 20 identified three claims where the backdated expenditure cell in the claim form was overstated by a total of £2,475. However, this had no impact on subsidy claimed and therefore additional testing was not undertaken. The claim form was amended for this issue.</p>	<p>This had no impact on subsidy claimed. As the claim form was amended we did not report this issue as an observation.</p>
<b>MODIFIED SCHEMES</b>	
<p><b>HRA rent rebates</b> Testing of all rent rebate modified schemes expenditure identified one claim where the modified schemes expenditure was understated by £426. The claim form was corrected for this error.</p>	<p>The effect of this error was as follows:</p> <ul style="list-style-type: none"> <li>Cell 061 'HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]' was understated by £426 (attracts full subsidy)</li> <li>Cell 065 'LA error and administrative delay overpayments' was understated by £95 (attracts no subsidy)</li> <li>Cell 067 'Eligible overpayments' was overstated by £95 (attracts 40% subsidy)</li> </ul> <p>On correction of these errors in the claim form, subsidy claimed increased by £388.</p>

## DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<b>MODIFIED SCHEMES (CONTINUED)</b>	
<p><b>Rent allowances</b></p> <p>Testing of all rent allowances modified schemes expenditure identified two claims with negative amounts totalling £2,382, in respect of cases which were not modified schemes. The claim form was corrected for these errors.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> <li>Cell 099 'Total expenditure up to the maximum rent' was understated by £2,014 (attracts full subsidy)</li> <li>Cell 121 'Eligible overpayments' was understated by £1,457 (attracts 40% subsidy)</li> <li>Cells 214 and 225 'Modified schemes' were understated by £2,382 (attracts 75% subsidy).</li> </ul> <p>On correction of these errors in the claim form, subsidy claimed increased by £4,384.</p>
<b>ERRORS ACROSS ALL BENEFIT TYPES</b>	
<p><b>Errors arising from manual adjustments</b></p> <p>The prior year audit found that a significant number of errors had arisen due to manual amendments in the system. Council staff were 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>As a result of this issue, all manual amendments in 2017/18 were tested. This testing identified a number of errors, although not to the same extent as the prior year.</p> <p>The claim form was corrected for these errors.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> <li>Cell 014 'Short term leased and self-contained licensed accommodation where the local authority is the landlord: Expenditure up to the lower of 90% of the appropriate LHA rate for the property, and the upper limit (£500 or £375)' was overstated by £216 (attracts full subsidy)</li> <li>Cell 023 'Non-HRA rent rebate expenditure attracting full rate subsidy not separately identified in this section' was understated by £459 (attracts full subsidy)</li> <li>Cell 024 'DWP error overpayments recovered' was overstated by £217 (attracts no subsidy)</li> <li>Cell 025 'DWP error overpayments not recovered' was understated by £217 (attracts full subsidy)</li> <li>Cell 061 'HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]' was overstated by £837 (attracts full subsidy)</li> <li>Cell 063 'DWP error overpayments recovered' was understated by £691 (attracts no subsidy)</li> <li>Cell 064 'DWP error overpayments not recovered' was overstated by £691 (attracts full subsidy)</li> <li>Cell 067 'Eligible overpayments' was overstated by £200 (attracts 40% subsidy)</li> <li>Cell 096 'Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could not be made under Regs.13 or 13ZA' was overstated by £1,356 (attracts 60% subsidy)</li> </ul>

## DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
<p><b>Errors arising from manual adjustments (continued)</b></p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> <li>Cell 097 'Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could be made under Regs.13 or 13ZA' was understated by £1,356 (attracts no subsidy)</li> <li>Cell 098 'Total expenditure on that part of weekly eligible rent at or below the rent officer's determination on a claim' was overstated by £31 (attracts full subsidy)</li> <li>Cell 102 'Total expenditure related to cases not requiring referral to the rent officer ' was understated by £1,387 (attracts full subsidy)</li> <li>Cell 103 'Total expenditure in claims administered under LHA rules' was overstated by £6,989 (attracts full subsidy).</li> </ul> <p>On correction of these errors in the claim form, subsidy claimed decreased by £7,595.</p>
<p><b>Errors arising from payments included in the incorrect year</b>            During the audit the Council noted that some payments that were made in 2018/19 were incorrectly included in the draft 2017/18 Claim Form.            The claim form was corrected for this issue.</p>	<p>The correction of this issue on the system decreased subsidy claimed by £21,441.</p>

## 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 our review recorded total receipts of £2,885,839, of which £281,256 was payable to MHCLG.

The final certified return recorded total receipts of £3,548,939, of which £281,256 was payable to MHCLG.

MHCLG 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 agreed upon procedures.

### FINDINGS AND IMPACT ON RETURN

Our work was completed and the return was certified before MHCLG's deadline of 11 January 2019.

We found that the Council had incorrectly disclosed receipts net of transaction costs in quarter 4, with the result that receipts were understated by £34,400. This was corrected in the final return and we reported this issue as an exception in our report to MHCLG.

# APPENDICES

## APPENDIX I: STATUS OF 2016/17 RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
<p><b>Overpayments</b></p> <p>Our audit in 2016/17 identified a number of issues in respect of the incorrect classification of overpayments. We recommend that additional checks are carried out to ensure that overpayments are correctly classified.</p>	High	Revenues and benefits team	June 2017	The audit of the 2017/18 claim did not identify ongoing issues in this area, therefore this recommendation is considered closed.	Closed
<p><b>Manual adjustments</b></p> <p>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. We recommend that management review the error codes being used for manual adjustments and limit the access to, and use of, these codes.</p>	High	Revenues and benefits team	June 2017	While the audit of the 2017/18 claim identified further errors arising from manual adjustments, this was not to the same extent as the prior year due to action taken by the Council. Therefore this recommendation is considered closed.	Closed

## APPENDIX II: 2017/18 RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p><b>Housing benefits claim</b></p> <p>Our audit of the 2017/18 housing benefits subsidy claim identified a number of errors, as highlighted in this report.</p>	<p>We recommend that the Council carries out detailed reviews in the problem areas identified by the 2017/18 audit, to ensure that data is cleansed before preparing the 2018/19 subsidy claim.</p>	High	<p>The Council endeavours to address all the issues raised by the audit in year. Unfortunately, with the delays in getting the claim signed off year on year, this has negatively impacted the Council going forward. However we are constantly striving to cleanse the data and will continue to do make this a priority.</p>	Senior Specialist Advisor, Thriving Communities	June 2019

## APPENDIX III: FEES SCHEDULE

	2017/18 FINAL	2017/18 PLANNED	2016/17 FINAL	EXPLANATION FOR VARIANCES
	£	£	£	
<b>PSAA regime</b>				
Certification fee (Housing benefit subsidy claim)	20,000	11,310	20,000	The 2016/17 fee is still subject to agreement by PSAA. We have proposed a fee of £20,000 for the 2017/18 audit. This is £8,690 higher than the estimated fee we previously reported, due to the higher number of 40+ and additional testing required this year as a result of identified errors.
<b>TOTAL PSAA REGIME FEES</b>	<b>20,000</b>	<b>11,310</b>	<b>20,000</b>	
<b>Other certification work</b>				
• Pooling of Housing Capital Receipts return	2,000	1,500	1,500	Increase of £500 agreed with management due to a change in MHCLG's requirements this year.
<b>TOTAL CERTIFICATION FEES</b>	<b>22,000</b>	<b>12,810</b>	<b>21,500</b>	

FOR MORE INFORMATION:

**JANINE COMBRINCK**  
Engagement lead

T: +44 (0)20 7893 2631  
E: [janine.combrinck@bdo.co.uk](mailto:janine.combrinck@bdo.co.uk)

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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