



LEWES DISTRICT COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2017

7 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(£)
Housing benefit subsidy	£35,126,940	YES	YES	The amendments increased the total subsidy claimed by £678
Pooling of housing capital receipts	£1,964,406	NO	NO	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 £35,126,262. The final submission increased subsidy claimed by £678, to £35,126,940.

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 which impacts on subsidy. 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 ten areas of 40+ testing, 100% testing on non-HRA cases (129 cases) and five different types of amendments to the claim form (involving around 23 cases). All non-HRA cases were tested as our audit in the prior year identified five types of errors and current year testing identified a further four types of errors in non-HRA cases.

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's internal auditors.

Our work was completed and the claim was certified on 28 September 2018, which was significantly later than the national deadline of 30 November 2017. This was due to the large volume of additional testing required as a result of errors identified in the current year and prior year claim forms.

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. DWP communicated the outcome to the Council on 12 October 2018. Adjustments totalling £49,308 were made to the claim as a result of DWP's review of the audit findings, however as the total level of local authority remained below the threshold, this did not result in any changes to the total amount of subsidy claimed in the final submission.

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

DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
ADJUSTMENTS TO THE CLAIM FORM		
Non-HRA rent rebates	<p>Misclassified expenditure above and below LHA rate cap Testing of all Non-HRA rent rebate cases in respect of 2016/17 identified ten cases where expenditure on cases was incorrectly split between cells for expenditure below the LHA rate and expenditure above the upper limit (these cells attract different levels of subsidy).</p>	The claim form was adjusted to move amounts totalling £1,368 between different non-HRA cells.
Non-HRA rent rebates	<p>Incorrectly processed overpayments Testing of all non-HRA cases identified two cases were overpayments had been incorrectly processed.</p>	The claim form was adjusted to move amounts totalling £3,281 between different non-HRA cells.
Non-HRA rent rebates	<p>Misclassified overpayments Testing of all non-HRA cases identified four cases were overpayments were misclassified between LA error and eligible overpayments (these cells attract different levels of subsidy).</p>	The claim form was adjusted to move amounts totalling £2,575 between different non-HRA cells.
Non-HRA rent rebates	<p>Misclassified overpayments Testing of all non-HRA cases identified a case that had both overpayment errors and cap rate errors.</p>	The claim form was adjusted to move amounts totalling £174 between different non-HRA cells.
Modified schemes	<p>Errors in modified schemes Testing of all 14 modified schemes cases identified 6 errors of different types.</p>	The claim form was adjusted to move amounts totalling £8,679 between different cells on the claim form.

DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
QUALIFICATION ISSUES		
Non-HRA rent rebates	<p>Misclassified tenancy types</p> <p>Testing of the initial sample of 20 Non HRA rent rebate cases in respect of 2016/17 identified two cases where the tenancy was incorrectly classified as non-HRA tenancy, rather than HRA rent rebates.</p> <p>Testing of 100% of all non-NHRA rent rebate cases identified a further two misclassifications; one case which related to HRA rent allowances, and one case incorrectly classified as board and lodging or non self-contained licenced accommodation rather than a short term leased or self-contained accommodation.</p>	<p>We reported the net understatement of £458 in our qualification letter.</p> <p>No adjustment was made to the claim form.</p>
HRA rent rebates	<p>Earned income</p> <p>Testing of the initial sample of 20 cases identified one case where earned income had been incorrectly calculated, resulting in an overstatement of benefit of £9.</p> <p>Extended testing of 40 cases did not identify any further overpayments and two underpayments were identified.</p>	<p>We extrapolated the identified error for overpaid benefit over the untested population and reported in our qualification letter an estimated overstatement of subsidy claimed of £249.</p> <p>No adjustment was made to the claim form.</p>
Rent allowances	<p>Occupational pension</p> <p>Testing of the initial sample of 20 cases identified one case where the incorrect occupational pension amount was applied, resulting in an overstatement of expenditure related to cases not requiring referral to the rent officer (which attracts subsidy at full rate) and an understatement of LA error and administrative delay overpayments (which attracts no subsidy) by £83.</p> <p>Extended testing of 40 cases identified one further overpayment of £1.</p>	<p>We extrapolated the identified error for overpaid benefit over the untested population and reported in our qualification letter an estimated overstatement of subsidy claimed of £779.</p> <p>No adjustment was made to the claim form.</p>

DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
QUALIFICATION ISSUES (continued)		
Rent allowances	<p>Rent liability</p> <p>Prior year testing identified one case where rent had not been correctly entered, resulting in overstatement of benefit.</p> <p>No errors where benefit was overpaid as a result of incorrect rent amounts were found in the initial sample of 20 cases tested in respect of 2016/17.</p> <p>Extended testing of 40 cases identified one case where rent had not been correctly entered, resulting in an overstatement of LHA expenditure and an understatement of LA error and administrative delay overpayments (which attracts no subsidy) by £544.</p>	<p>We extrapolated the identified error for overpaid benefit over the untested population and reported in our qualification letter an estimated overstatement of subsidy claimed of £48,099.</p> <p>No adjustment was made to the claim form.</p>
Rent allowances	<p>Childcare costs</p> <p>Prior year testing identified two cases where childcare costs were incorrectly recorded, resulting in an overstatement of benefit.</p> <p>No errors where benefit was overpaid as a result of incorrect recording of childcare costs were found in the initial sample of 20 cases tested in respect of 2016/17.</p> <p>Extended testing of 40 cases identified one case where childcare costs had not been correctly entered, resulting in an overstatement of LHA expenditure and an understatement of LA error and administrative delay overpayments (which attracts no subsidy) by £2.</p>	<p>We extrapolated the identified error for overpaid benefit over the untested population and reported in our qualification letter an estimated overstatement of subsidy claimed of £255.</p> <p>No adjustment was made to the claim form.</p>

DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
OTHER OBSERVATIONS		
Non-HRA rent rebates	<p>Misclassified tenancy types</p> <p>Testing of the initial sample of 20 Non HRA rent rebate cases in respect of 2016/17 identified one case where the tenancy was incorrectly classified as short term leased or self-contained licenced accommodation, rather than board and lodging or non self-contained licenced accommodation</p> <p>Testing of 100% of other non-HRA rent rebates cases identified two further cases which were incorrectly classified.</p>	<p>The Council confirmed the nil subsidy impact, and did not amend the claim form. These cases will be amended in the system in 2018/19 where they remain live.</p>
Non-HRA rent rebates	<p>Underpaid benefit due to incorrect service charges and earned income</p> <p>Testing of the initial sample of 20 Non HRA rent rebates cases identified one case where benefit was underpaid as a result of the Council recording incorrect service charges.</p> <p>Testing of 100% of other non-HRA cases identified a further six cases where benefit was underpaid as a result of the Council recording incorrect service charges, earned income and self-employed earned income.</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.</p>
HRA rent rebates	<p>Misclassification between cells</p> <p>Testing of the initial sample identified one case where a non-HRA tenancy was incorrectly classified as an HRA tenancy.</p> <p>Extended testing of 40 cases identified no further errors of this type.</p>	<p>As the detailed cells attract the same subsidy values, there is no subsidy impact.</p>
HRA rent rebates	<p>Errors with no impact on benefit expenditure</p> <p>Prior year testing of rent rebate cases identified a case with the uprating of carer's allowance was applied from the incorrect date. No errors of this type were found in the initial sample of 20 cases tested in respect of 2016/17.</p> <p>Extended testing on 40 cases identified one case where carer's allowance had been incorrectly included.</p>	<p>This error had no impact on housing benefit awarded as this was a passported case because the claimant was receiving employment and support allowance, therefore there was no impact on subsidy.</p>

DETAILED FINDINGS

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
OTHER OBSERVATIONS (continued)		
HRA rent rebates	<p>Underpaid benefit due to incorrect earned income Extended testing of 40 cases with earned income identified two cases where benefit had been underpaid by a total of £83 as a result of the Council miscalculating earned income.</p>	As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes.
Rent allowances	<p>Underpaid benefit due to incorrect rent amounts Testing of the initial sample identified one case where the Council had underpaid benefit by £5 as a result of applying the incorrect rent amount.</p>	As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified do not affect subsidy and have not been classified as errors for subsidy purposes.
Rent allowances	<p>Underpaid benefit due to incorrect earned income Prior year testing of rent allowance cases identified cases where earned income had been miscalculated. No errors of this type were found in the initial sample of 20 cases tested in respect of 2016/17. Extended testing on 40 cases identified two cases where benefit had been underpaid as a result of the Council overstating earned income. Testing also identified errors in the recording in two further cases, however these errors did not impact on the amount of benefit paid.</p>	As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not been classified as errors for subsidy purposes.
Rent allowances	<p>Errors with no impact on benefit expenditure Prior year testing of rent allowance cases identified cases where child tax credits were incorrectly applied. No errors of this type were found in the initial sample of 20 cases tested in respect of 2016/17. Extended testing on all 45 cases identified two errors totalling £25 where child tax credit had been entered incorrectly.</p>	These two errors had no impact on housing benefit awarded as one of the cases was a passported case and the income in the other case was below the applicable amount.

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 £1,964,406 of which £408,027 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 did not identify any issues and the return was certified without qualification or amendment.

APPENDICES

APPENDIX I: STATUS OF 2015/16 RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
We recommend that additional checks are carried out to ensure that tenancies are correctly classified.	High	Head of Planning and Revenues	March 2018	Our audit of the 2016/17 claim found continuing misclassifications in tenancy types, therefore this recommendation has been repeated in Appendix II.	Open
We recommend that additional checks are carried out to ensure that the carer's allowance annual uplifting is applied from the correct date for all HRA rent rebates in 2017/18.	High	Head of Planning and Revenues	March 2018	No issues of this nature were identified in our audit of the 2016/17 claim.	Closed
We recommend that additional checks are carried out to ensure that annual uplifts of applicable amounts of all income types are applied from the correct date, earned income is correctly input, and that childcare costs and rent are correctly recorded for all rent allowances.	High	Head of Planning and Revenues	March 2018	Our audit of the 2016/17 claim found continuing issues in some of these areas, therefore part of the recommendation has been repeated in Appendix II.	Open

APPENDIX II: 2016/17 RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p>Non-HRA rent rebates Our audit in 2016/17 identified a significant number of issues, including errors in respect of:</p> <ul style="list-style-type: none"> • Misclassified tenancy types • Misclassified expenditure above and below LHA rate cap • Processing of overpayment and overpayment misclassifications. 	We recommend that additional checks are carried out to ensure that tenancies are correctly classified, expenditure is correctly classified between above and below LHA rate cap and overpayments are correctly processed and classified.	High	All the Non-HRA rent rebate cases will be checked prior to the submission of the 2018/19 claim.	Senior Specialist Advisor, Thriving Communities	31 March 2019
<p>HRA rent rebates Our audit in 2016/17 identified issues in respect of earned income being incorrectly input/calculated.</p>	We recommend that additional check are carried out to ensure that earned income is correctly input/calculated.	High	<p>Additional training has been delivered to Case Workers to ensure as far as possible accuracy in assessment of earned income.</p> <p>We will endeavour, given limited resources, to prioritise accuracy checking in this area.</p>	Senior Specialist Advisor, Thriving Communities	31 March 2019
<p>Rent allowances Our audit in 2016/17 identified issues in respect of:</p> <ul style="list-style-type: none"> • Occupational pension amount incorrectly input • Rent incorrectly recorded • Childcare costs incorrectly recorded. 	We recommend that additional checks are carried out to ensure that occupational pension amount, childcare costs and rent are correctly recorded for all rent allowances.	High	We will raise awareness of these errors with Case Workers and endeavour to prioritise accuracy checking in these areas	Senior Specialist Advisor, Thriving Communities	31 March 2019

APPENDIX III: FEES SCHEDULE

	2016/17 FINAL	2016/17 PLANNED	2015/16 FINAL	EXPLANATION FOR VARIANCES
	£	£	£	
PSAA regime				
Certification fee (Housing benefit subsidy claim)	25,598	15,598	14,960	We have incurred additional cost in our work on the 2016/17 housing benefits subsidy claim due to the significant level of errors identified by testing of cases in the current year and prior year, and delays in completion of the work. We have therefore agreed an additional fee with management. This is subject to approval by Public Sector Audit Appointments Limited.
TOTAL PSAA REGIME FEES	25,598	15,595	14,960	
Other certification work				
• Pooling of Housing Capital Receipts return	1,500	1,500	1,500	N/A
TOTAL CERTIFICATION FEES	27,098	17,095	16,460	



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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