

MEDWAY COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2014

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INTRODUCTION

THE PURPOSE OF THIS REPORT

This report summarises the issues arising from the certification of grant claims and returns for the financial year ended 31 March 2014.

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions issued (by the Commission) in consultation with the relevant grant paying bodies. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

After completion of the audit procedures specified within the Certification Instruction, the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified based on the audit work completed. Sample sizes used in the work on the housing benefit subsidy claim and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

A summary of the fees charged for certification work for the year ended 31 March 2014 is shown to the right.

Appendix I of this report shows the Council's progress against the action plan included in the prior year's Grant Claims and Returns Certification report (presented to the Audit Committee in March 2014). Appendix II contains an action plan and recommendations made following our audit of claims and returns for the period ended 31 March 2014.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our certification work.

FEES	PLANNED SCALE FEE (£)	OUTTURN FEE (£)
Housing benefit subsidy	13,141	13,141
Pooling of housing capital receipts	3,200	3,200
TOTAL SCALE FEE	16,341	16,341

Teachers' Pension Return

The audit of the Teacher's Pension Return was removed from the Audit Commission certification regime in 2013/14 and is not included in the scale fee. However, the Department for Education requires the return to be audited and a separate term of engagement was agreed in accordance with the scope of work specified by the Government department. The fee for this work was £4,200.

KEY FINDINGS

Summary of high level findings

CLAIM OR RETURN	FINAL VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing benefit subsidy	105,154,241	Yes	Yes	-1,402
Pooled housing capital receipts	712,558	No	No	0
Teachers' pensions return	10,819,094	No	No	0

Detailed Findings

Below are details of each grant claim and return subject to certification by BDO for the period ended 31 March 2014. Where our work identified matters which resulted in either an amendment or a qualification (or both), further information is provided. An action plan is included at Appendix II of this report.

Housing benefit subsidy

Local authorities responsible for managing housing benefit schemes 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 audit 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 the Audit Commission and the Department for Work and Pensions. We have no discretion over how this methodology is applied.

In 2013/14, council tax benefit was no longer part of the subsidy arrangements following the localisation of council tax reduction schemes.

Findings and impact on claim

Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement. The errors mainly involved the incorrect recording of information (such as the classification of expenditure, property types and benefit overpayments). The Audit Commission requires that where errors are not considered to be 'isolated', an additional sample should be selected by the auditor and reviewed by the Council. We then review such work and the impact of the error is quantified by extrapolating the test results. Accordingly, the Council reviewed 168 additional cases covering six areas ('cells') of the claim.

The Audit Commission 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 before the Government's deadline of 30 November 2014. Our audit certificate 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 (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 next page.

Benefit type	Error type	Impact on claim
Benefit software reconciliation	The Authority has performed the software supplier's reconciliation but to fully reconcile benefit granted and paid the Authority had to make balancing adjustments.	<p>There is a difference of £2,697 between the benefit granted per the claim form and the benefit granted per the software supplier's reconciliation of benefit granted to be paid. There is a further difference of £4,171 between the benefit granted per the software supplier's reconciliation of benefit granted to benefit paid and the adjusted benefit granted figure per the Authority reconciliation.</p> <p>In addition to the differences identified above, there was a £137,423 difference reported between the reconciliation and benefit paid when the subsidy reports were run for creditor amounts. All cases showing differences had been reviewed and we concluded that the paid benefit correctly agreed to the amount reported in the subsidy claim. The Authority liaised with the software supplier who was not able to resolve this issue. This issue did not impact on the amount of subsidy claimed.</p>
HRA rent rebates - eligible overpayments	The Council misclassified overpayments between those eligible for subsidy (40% of expenditure) and local authority error (which does not attract any subsidy) and technical error (which does not attract any subsidy).	Based on our extrapolation of errors, we estimated the Council overstated the amount of eligible overpayments by £6,890; understated local authority error by £5,038 and understated technical error by £1,852.
Non-HRA Rent Rebates	The Council overpaid benefit when calculating the impact of a claimant's earnings from a total sample of 60 cases.	Based on our extrapolation of errors, we estimated the Council overstated the amount of Non HRA Rent Rebate expenditure by £140 and correspondingly understated the amount of local authority error overpayments for Non HRA rent rebates expenditure.
	This same error type also resulted in two underpayments.	The total value of underpayments identified was £199. Underpayments are not used to calculate an extrapolated error and should be adjusted in the 2014/15 subsidy claim.
	The Council input two claimant's date of births incorrectly and one claimant's applicable income amount incorrectly from a total sample of 60 cases.	These errors did not have an impact on subsidy.
	The Council incorrectly classified one non-HRA rent rebate bed & breakfast case when it should have been classified as a short term leased accommodation case from a total sample of 60 cases.	<p>Based on our extrapolation of errors, we estimated the Council had:</p> <ul style="list-style-type: none"> - Overstated cell 012 which is the amount of expenditure up to the lower of the one bedroom self-contained local housing allowance (LHA) rate and the upper limit (attracts 100% subsidy) by £8,125 and understated cell 014 which is the expenditure up to the lower of 90% of the appropriate LHA rate for the property plus the management costs element and the upper limit (attracts 100% subsidy) by the same amount - Overstated cell 013 which is the expenditure above the lower of the one bedroom self-contained LHA rate and the upper limit (attracts 100% subsidy) by

Benefit type	Error type	Impact on claim
Non-HRA Rent Rebates (cont.)		£5,797 and understated cell 015 which is the expenditure above the lower of 90% of the appropriate LHA rate for the property plus the management costs element and the upper limit (attracts 100% subsidy) by the same amount.
	The Council incorrectly included £141 in cell 013 when it should have included in cell 012. The situation arose because the `Northgate' system processes certain transactions incorrectly 9for subsidy purposes). Specifically, where a customer receives an amount above the Local Housing Allowance (LHA) rate (expenditure allocated to cell 013), and where any subsequent overpayment that occurs may result in a benefit period being reduced to a part week entitlement, the Northgate system incorrectly pro-rates the LHA rate to a daily amount. This is incorrect as the relevant guidance states that this situation should not arise and the amount paid should be compared to the weekly LHA rate, even if the claim has only been paid for a part week.	The amounts included in cell 012 and cell 013 could not be analysed by the Northgate system to produce a population of benefit cases which include part week entitlement therefore no further testing was performed. No errors of a similar nature were identified in the initial sample in relation to cells 014 and 015 however it is possible similar errors may be included in these cells.
	The Council misclassified overpayments between those eligible for subsidy (40% of expenditure) and local authority error (which does not attract any subsidy).	Based on our extrapolation of errors, we estimated the Council overstated the amount of eligible overpayments by £2,515 and correspondingly understated the amount of local authority error overpayments.
	The Council misclassified a local authority error overpayment (attracts 40% subsidy) as expenditure attracting full subsidy.	Based on our extrapolation of errors, we estimated the Council had: <ul style="list-style-type: none"> - Overstated cell 012 which is the amount of expenditure up to the lower of the one bedroom self-contained local housing allowance (LHA) rate and the upper limit (attracts 100% subsidy) by £960 and understated cell 026 which is the LA error and administrative delay overpayments (attracts 40% subsidy) by the same amount - Overstated cell 013 which is the expenditure above the lower of the one bedroom self-contained LHA rate and the upper limit (attracts 100% subsidy) by £145 and understated cell 026 which is the LA error and administrative delay overpayments (attracts 40% subsidy) by the same amount.

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 information in these returns is subject to certification on an annual basis.

Findings and impact on return

Our audit did not identify any issues and the return was certified without qualification or amendment.

Teachers' pension contributions

Local authorities which employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to the Teachers' Pensions office (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYCa, which the Council is required to submit to Teachers' Pensions.

The Department for Education requires that Form EOYCa is certified but the work is not part of the Audit Commission's certification regime. We therefore agreed a separate term of engagement for this work and provided a limited assurance audit report before the Government's deadline for submitting the audited return.

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 2012/13 RECOMMENDATIONS


RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
<p>Housing benefit claim</p> <p>Expenditure for non HRA rent rebate claimants should be thoroughly reviewed to ensure entitlement is appropriately reflected in the subsidy claimed.</p>	High	<p>This was a system error (i.e. affected all Northgate users in England and Wales and not unique to Medway). This error occurs only in a very limited scenario. Northgate have confirmed this is a 'system bug' and will provide a script to identify cases for 2013/14 grant claim. As at February 2014 this script has not yet been issued. It is difficult to identify such cases without the script however this is low risk & equated to £370 out of a cell value of £154,134.</p>	Finance Team (CFO)	Carry forward to 2013/14	There has been no reoccurrence of this issue and would appear to have been fixed in a later release
<p>Housing benefit claim</p> <p>As per 2011/12, we recommend the Council ensures that sufficient training is provided to the assessments team and that additional checks are carried out to reduce the number of incorrect assessments and misclassifications.</p>	High	<p>New additional training guidance and procedures issued to assessment team. Targeted checking has been undertaken following on from last year's recommendation with no major issues identified.</p>	Finance Team (CFO)	Implemented	Training guidance and procedures have continued to be implemented. See 2013/14.

APPENDIX II: 2013/14 ACTION PLAN

HOUSING BENEFIT SUBSIDY					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Our audit identified discrepancies between the benefit subsidy claim and the software supplier's reconciliation.	We recommend that discrepancies are followed up and resolved as part of the preparation of the subsidy claim.	High	The discrepancies identified appear to be purely sub-report discrepancies as the overall reconciliation of Subsidy to Payables had no discrepancy . The sub-report discrepancies were individually checked and again there are no issues/errors. Northgate have commenced investigation but to date have found no resolution.	Jon Poulson	Ongoing
Our audit identified a Northgate system error which resulted in part week non-HRA rent rebate payments being misclassified.	We recommend that the Council liaises with Northgate to ensure a software fix is provided to correct this error going forward.	High	This affects all Northgate sites and not just Medway. Northgate have this listed as a 'system bug' (WMS89609) with no proposed fix date. This is considered low risk/low value	Jon Poulson	Ongoing

HOUSING BENEFIT SUBSIDY

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Our audit found a number of errors relating to expenditure misclassification of expenditure, incorrect income assessments and data inputting errors.	We recommend the Council ensures that sufficient training is provided to the assessments team and that additional checks are carried out to reduce the number of incorrect assessments, data inputting errors and expenditure misclassifications.	High	Training guidance and procedures continue to be updated and briefed as required, with dedicated training sessions being scheduled for new / complex changes. The checking of high value items and the targeted sampling of the work of staff presenting quality concerns further provides insight into individual learning requirements and provides focus for management intervention, with performance improvement plans being put in place for all staff presenting quality concerns. To further enhance the training and coaching of staff a new dedicated training and quality officer role was established.	Martin Garlick	Ongoing



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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