

MEDWAY COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2015

CONTENTS

INTRODUCTION	1
KEY FINDINGS.....	2
APPENDIX I: STATUS OF 2013/14 RECOMMENDATIONS.....	8
APPENDIX II: 2014/15 ACTION PLAN.....	9

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 2015.

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

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified with the reasons for qualification set out in a letter to the grant paying body. Sample sizes used in the work on the housing and council tax benefit subsidy return 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 2015 is shown to the right.

Appendix I of this report (page 7) shows the Council's progress against the action plan included in our 2013/14 Grant Claims and Returns Certification report (presented to the Audit Committee on 19 March 2015).

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	OUTTURN FEE (£)	PLANNED SCALE FEE (£)	PRIOR YEAR OUTTURN FEE (£)	PRIOR YEAR SCALE FEE (£)
Housing benefit subsidy	12,250	12,250	16,341	16,341
TOTAL FEE	12,250	12,250	16,341	16,341

Teachers' Pension Return

The audit of the Teacher's Pension Return was removed from the Audit Commission 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.

Pooling of Housing Capital Receipts Return

The audit of the Pooling of Housing Capital Receipts Return was removed from the Audit Commission regime in 2014/15 and is not included in the scale fee. However, the Department for Communities and Local Government 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 £3,200.

KEY FINDINGS

Summary of high level findings

CLAIM OR RETURN	FINAL VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS ON SUBSIDY OWED (£)
Housing benefit subsidy	105,581,549	Yes	Yes	9,771
Pooled housing capital receipts	1,143,550	No	No	0
Teachers' pensions return	9,278,284	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 2015. 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.

Guidance requires auditors to undertake extended 40+ testing if initial testing identifies 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.

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). This resulted in 3 areas of 40+ testing, 4 areas of additional testing and 1 amendment to the claim form.

The Audit Commission'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 before the Government's deadline of 30 November 2015. 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 two pages.

KEY FINDINGS

Benefit type	Error type	Impact on claim
Non-HRA rent rebates - Local Authority error and administrative delay overpayments	Initial testing identified that the Council misclassified overpayments between those classified as local authority error and technical error overpayments. 40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.	Based on our extrapolation of the errors, we estimated that the Council overstated the amount of local authority overpayments by £49,487 and understated technical overpayments by the same amount. If DWP decide to adjust for the extrapolated error reported, this would have a decrease on subsidy of £19,795.
Non-HRA rent rebates - eligible overpayments	Initial testing identified that the Council misclassified overpayments between those classified as eligible overpayments, technical error overpayments and local authority overpayments. 40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.	Based on our extrapolation of the errors, we estimated that the Council overstated the amount of eligible overpayments by £68,096 and understated technical overpayments by £62,390 and understated local authority overpayments by £5,706. If DWP decide to adjust for the extrapolated error reported, this would have a decrease on subsidy of £27,238.
Non-HRA rent rebates - incorrect application of service charges	Initial testing identified that the Council incorrectly applied service charges to eligible rent in benefit calculations for 3 cases, resulting in benefit being underpaid in 2 cases and overpaid in 1 case. Testing was completed on the entire sub-population of 29 cases where service charges applied so that the error could be quantified. A further 7 errors were identified from this testing.	The errors will be reflected in the 2015/16 subsidy claim form and therefore the impact of the errors identified and the required amendments were reported in the Qualification Letter. The total underpaid benefit amounted to £2,516. Total overpaid benefit amounted to £619 (with the corresponding entry being local authority overpayments). This error would increase subsidy by approximately £747.
Non-HRA rent rebates - rent free weeks	Testing in the prior year identified an issue with rent free weeks being incorrectly applied to some benefit cases that related to a particular property type. Testing was completed to ensure that the same issue had not recurred in the current year. The total sub-population of the 14 benefit cases that related to this particular property type were tested so that the error could be quantified. A total of 3 errors were identified from this testing.	The errors will be reflected in the 2015/16 subsidy claim form and therefore the impact of the errors identified and the required amendments were reported in the Qualification Letter. Benefit was found to be overpaid by £326 in total for the errors identified (with the corresponding entry being local authority overpayments). This error would decrease subsidy by approximately £130.

Benefit type	Error type	Impact on claim
Non-HRA rent rebates - part-weeks	<p>Initial testing identified 3 cases where an incorrect amount had been split across cell 012 (expenditure up to the lower of the one-bedroom self-contained local housing allowance (LHA) rate and the upper limit) and cell 014 (expenditure up to the lower of 90% of the appropriate LHA rate for the property plus the management costs element and the upper limit) in the subsidy claim form. The situation arose because the Northgate system processes certain transactions incorrectly. Specifically, where a customer receives an amount above the LHA rate (expenditure allocated to cell 013 (expenditure above the lower of the one-bedroom self-contained LHA rate and the upper limit) and cell 015 (expenditure above the lower of 90% of the appropriate LHA rate for the property plus the management costs element and the upper limit), 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.</p> <p>This is the same error that was identified in the prior year. Northgate have not yet issued a fix for the system to rectify this issue.</p>	<p>The amounts included in cell 012, cell 013 cell 014 and cell 015 could not be analysed by the Northgate system to produce a sub-population of benefit cases which include part week entitlement therefore no further testing was performed. This issue was reported in the Qualification Letter.</p>
Rent rebates - Local Authority error and administrative delay overpayments	<p>Initial testing identified that the Council misclassified an overpayment between local authority error (prior year) and technical error overpayment (prior year) for 1 case.</p> <p>Testing was completed on the entire sub-population of 27 cases so that the error could be quantified and the claim form amended. One further error was identified.</p>	<p>As the entire population of this cell was tested and the errors resulted in expenditure being misclassified, the claim form was amended for the 2 errors identified. Local authority overpayments (prior year) were overstated by £9,771 and therefore were removed from this cell and included in the cell for technical error overpayments (prior year). This error decreased subsidy by £9,771.</p>
Rent allowances - earned income cases	<p>Initial testing identified 2 cases where earned income had been incorrectly applied in the benefit calculations, resulting in benefit being underpaid in 1 case and overpaid in 1 case.</p> <p>40+ testing was undertaken to quantify the results and an extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors, we estimated the Council overstated benefit expenditure by £16,224. The corresponding adjustment is to local authority error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would have a decrease on subsidy of £6,490.</p>

Benefit type	Error type	Impact on claim
Modified schemes - incorrect pension amounts	<p>Initial testing identified that the incorrect pension amounts had been applied in the benefit calculation in 3 cases resulting in expenditure for local scheme cases being underpaid or having no impact on the benefit paid.</p> <p>Testing was completed on the entire sub-population of 39 modified scheme cases so that the error could be quantified and the claim form amended. Eight further errors were identified.</p>	<p>The errors will be reflected in the 2015/16 subsidy claim form and therefore the impact of the errors identified and the required amendments were reported in the Qualification Letter. Local scheme expenditure was found to be understated by £650 in total for the errors identified and standard scheme benefit expenditure was found to be overstated by £446 (with the corresponding entry being local authority overpayments). This error would increase subsidy by approximately £301.</p>

KEY 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 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 2013/14 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
<p>Housing benefit subsidy</p> <p>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.</p>	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	On-going	The Council discussed this issue with Northgate who confirmed that the discrepancies related to sub-reports and had no impact on the overall subsidy. The Council reviewed all cases that this affected for 2014/15 and no issues were noted. Northgate continue to look to fix this issue however confirmed that this issue does not impact on subsidy.
<p>Housing benefit subsidy</p> <p>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.</p>	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	On-going	This continues to be an issue with the Northgate system and a fix has not yet been issued. This was reported in our Qualification Letter and point around this has been repeated in Appendix II.
<p>Housing benefit subsidy</p> <p>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.</p>	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	On-going	Due to the number of errors identified during 2014/15 a recommendation around training has been repeated in Appendix II.

APPENDIX II: 2014/15 ACTION PLAN

HOUSING BENEFIT SUBSIDY					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
As in the prior year, our audit identified a Northgate system error which resulted in part week non-HRA rent rebate payments being misclassified.	We recommend that the Council continues to liaise with Northgate to ensure a software fix is provided to correct this error going forward.	Medium	The latest release from Northgate allows us to identify and manually adjust these cases	Jon Poulson	On-going
Our audit found a number of errors relating to misclassification of expenditure, incorrect income assessments and data inputting errors. Particularly it was noted that technical overpayments were being incorrectly classified in the majority of cases.	We recommend the Council ensures that sufficient training is provided to the assessments team on the errors identified during 2014/15, particularly reminding staff the definition of a technical overpayment.	Medium	Training to be completed by end of financial year	Jon Poulson	End of March 2016
	Complete increased, targeted sample checks on the work completed by benefit assessors to identify any particular training needs and to ensure that any known errors are being addressed.		A risk based checking regime will continue to identify any trends and training be provided accordingly. However the checking must balance risk with available resource	Jon Poulson	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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