



MEDWAY COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

For the year ended 31 March 2017
18 July 2018

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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 the terms 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.

Under these arrangements the Council has engaged us to carry out the following for the year ended 31 March 2017:

- 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
- Completion of 'agreed-upon procedures', based on the instructions and guidance provided by the Department for Education, of the teachers' pensions return.

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 the summarised results of our work on 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 in the Detailed Findings section on the following pages.

| CLAIM OR RETURN | VALUE OF CLAIM OR RETURN (£) | QUALIFIED? | AMENDED? | IMPACT OF AMENDMENTS(£) |
|--|------------------------------|------------|----------|-------------------------|
| Housing benefit subsidy claim | £98,748,718 | YES | NO | £0 ¹ |
| Pooling of housing capital receipts return | £1,696,800 | NO | NO | £0 |
| Teachers' pensions contributions return | £7,657,525 | NO | NO | £0 |

¹ Amendments are only made where there are demonstrably isolated cases. Where testing indicates the wider population may contain further errors, but these cannot all be identified, we are required to extrapolate the error (see pages 5 to 7 for details). These extrapolations are not adjusted for.

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 the benefit system 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 reported 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 a total amount claimed as subsidy of £98,748,718.

FINDINGS AND CONCLUSION

Our audit of 60 individual claimant files highlighted 3 errors made by the Council in administering benefit and calculating subsidy entitlement.

Guidance requires auditors to undertake extended '40+ testing' if initial testing identifies errors in the benefit entitlement calculation or in the classification of expenditure. '40+ testing' 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 being tested.

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 approach resulted in 7 areas of '40+ testing', 1 area of additional '100% testing' and no amendments were made to the claim form.

PSAA's methodology allows contractors to perform the additional work, but requires auditors to re-perform a sample of the additional work undertaken to ensure conclusions have been satisfactorily reached and recorded. During the financial year the Council has awarded a contract to an external firm to perform some additional work. We understand that the contract has ended by mutual consent. This had some implications which caused delay in the completion of our work and the claim was certified in March 2018 which was after the Government's deadline of 30 November 2017.

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 Council is awaiting the outcome of the DWP's review of our qualification letter on its final subsidy amount for the year. If the DWP decide to adjust the subsidy claimed by the extrapolated value of errors for all of the matters reported in the qualification letter, the Council will have under-claimed subsidy by net value of £13,117.

A summary of our audit findings can be found on the next pages. For context it should be noted that there are different classifications of overpayment, depending on what has caused the overpayment to occur. The Council is entitled to different rates of subsidy on the different overpayment classifications.

| BENEFIT TYPE | ERROR TYPE | IMPACT ON CLAIM |
|---|---|---|
| <p>Non-HRA Rent Rebates- Misclassification of expenditure above the cap</p> | <p>Testing of the initial sample of 20 cases identified 1 case (total value £12) where the expenditure was incorrectly classified due to incorrect application of the benefit cap and should have been classified in 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 (£500 or £375)).</p> <p>Testing of an additional sample of 40 cases identified 5 cases (total value £116) selected from cell 015 where expenditure was incorrectly classified due to the incorrect application of the benefit cap, resulting in an overstatement of cell 015 and corresponding understatement of cell 014. It also identified 1 case (value £1,603) selected from cell 015 where expenditure was incorrectly classified due to the incorrect application of the benefit cap, resulting in an understatement of cell 015 and corresponding overstatement of cell 014.</p> <p>An extrapolation was included within the Qualification Letter.</p> | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of expenditure up to the cap by £12,356 and understated Expenditure above the cap by the same amount.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £12,356.</p> |
| <p>Non-HRA Rent Rebates- Misclassification of overpayments: Eligible (Prior year)</p> | <p>Our testing in the prior year (2015/16) identified 1 case where the Council misclassified an overpayment as an Eligible overpayment when it should have been classified as a Local Authority Error overpayment. This year ‘100% testing’ was carried out on the entire sub-population of 92 cases in order to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified 1 case where the overpayment should have been classified as a Technical Overpayment.</p> <p>This error has led to an overstatement of Eligible overpayment (cell 027) and a corresponding understatement of Technical overpayment (cell 028) by £1.</p> | <p>Based on our findings the Council overstated the amount of Eligible overpayments by £1 and understated Technical overpayments by £1.</p> <p>If DWP decided to adjust for the error reported, this would decrease the subsidy receivable by £0.40. However, as the subsidy is rounded to the nearest whole number this would not decrease the subsidy receivable.</p> |

| BENEFIT TYPE | ERROR TYPE | IMPACT ON CLAIM |
|---|---|---|
| Rent Rebates- Misclassification of overpayments: Eligible | <p>Testing of the initial sample of 20 cases identified 1 case (value £575) where the overpayment was incorrectly classified as an Eligible overpayment (cell 067) when it should have been classified in cell 065 (LA error and administrative delay overpayments).</p> <p>Testing of an additional random sample of 40 cases identified a further 4 cases (total value £470) where the overpayment was incorrectly classified and should have been classified in cell 065 (LA error and administrative delay overpayments).</p> <p>This error has led to an overstatement in cell 067 (Eligible overpayment) and a corresponding understatement in cell 065 (LA error and administrative delay overpayments) of £1,045.</p> <p>An extrapolation was included within the Qualification Letter.</p> | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Eligible overpayments by £8,261 and understated LA error and administrative delay overpayments by the same amount.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £3,304.</p> |
| Rent Allowances- Earned Income (Prior Year) | <p>Our testing in the prior year (2015/16) identified 3 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2016/17 and to quantify the results.</p> <p>Our testing identified that earned income had been incorrectly applied in benefit calculations in 3 cases resulting in benefit being underpaid in 2 cases (total value £21), overpaid in 1 case (value £2).</p> <p>An extrapolation was included within the Qualification Letter in respect of the overpaid benefit.</p> | <p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £2,330. The corresponding understatement is to the LA error and administrative delay overpayments.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £2,330.</p> |
| Rent Allowances- Eligible overpayments | <p>Testing of the initial sample of 20 cases identified 1 case (value £86) where the overpayment was incorrectly classified and should have been classified in cell 113 (LA error and administrative delay overpayments).</p> <p>Testing of an additional random sample of 40 cases identified a further 6 cases (total value £531) where the overpayment was incorrectly classified and should have been classified in cell 113 (LA error and administrative delay overpayments).</p> <p>This error has led to an overstatement in cell 114 (Eligible overpayment) and a corresponding understatement in cell 113 (LA error and administrative delay overpayments) of £617.</p> <p>An extrapolation was included within the Qualification Letter.</p> | <p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Eligible overpayments by £51,845 and understated LA error and administrative delay overpayments by the same amount.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would increase the subsidy receivable by £31,107 (as this is a reclassification from a 40% subsidy cell to a 100% subsidy cell).</p> |

POOLING OF HOUSING CAPITAL RECEIPTS

Local authorities are required to pay a portion of any housing capital receipts 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 annual return provided for audit recorded total receipts of £1,696,800 of which £305,631 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 work did not identify any issues and the return was certified without qualification or amendment. The certification work was completed before the deadline of 31 October 2017.

TEACHERS' PENSIONS

Local authorities that 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 annually on form EOYC, which the Council is required to submit to the Teachers' Pensions.

The Department for Education requires that Form EOYC is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide an 'agreed-upon procedures' assurance report before the Government's deadline for submitting the audited return.

FINDINGS AND IMPACT ON RETURN

Our work did not identify any issues and the return was certified without qualification or amendment. The certification work was completed before the deadline of 30 November 2017.

APPENDICES

APPENDIX I: FEES SCHEDULE

| | 2016/17 FINAL | 2016/17 PLANNED | 2015/16 FINAL | |
|---|------------------|--------------------|------------------|---|
| | £ | £ | £ | EXPLANATION FOR VARIANCES |
| PSAA regime | | | | |
| Certification fee (Housing benefit subsidy claim) | 13,993 | 9,188 | 9,856 | 2016/17 planned fee per PSAA. The final fee for 2016/17 is inclusive of a fee variation of £4,805, agreed with management. This has been submitted to PSAA for approval. The fee variation is due to significant additional time spent on low quality work performed by the new contractor who prepared initial testing and additional testing workbooks. |
| TOTAL PSAA REGIME FEES | 13,993 | 9,188 | 9,856 | |
| Other certification work | | | | |
| Pooling of Housing Capital Receipts return | 3,200 | 3,200 | 3,200 | N/A |
| Teachers' pensions return | 4,200 | 4,200 | 4,200 | N/A |
| TOTAL CERTIFICATION FEES | 21,393 | 16,588 | 17,256 | |



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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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