



**MEDWAY COUNCIL**

**GRANT CLAIMS AND RETURNS CERTIFICATION**

For the year ended 31 March 2018  
7 March 2019

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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 2018.

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

Until 2017/18 PSAA had a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertook 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 were 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 works are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

Under these arrangements the Council had engaged us to carry out the following for the year ended 31 March 2018:

- Completion of '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.
- 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](http://www.bdo.co.uk).

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## KEY FINDINGS

Below are the summarised results of our work on each grant claim and return subject to certification or completion of agreed-upon procedures 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 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	£96,231,327	YES	YES	+£32 <sup>1</sup>
Pooling of housing capital receipts return	£1,295,500	N/A	NO	£0
Teachers' pensions contributions return	£5,805,647	N/A	YES	£0

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<sup>1</sup> 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.

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## 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 £96,231,327.

### FINDINGS AND CONCLUSION

Our audit of 60 individual claimant files did not highlight any 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' 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 4 areas of '40+ testing', 1 area of additional '100% testing' relating to follow-up work on prior year issues reported. The testing performed resulted in the increase in total subsidy claimed by £32.

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 DWP. 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 a net value of £39,779.

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
Non-HRA Rent Rebates- Misclassification of expenditure above the cap	<p>Testing in the prior year identified 6 cases out of 53 tested 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)). No errors were identified from testing of the current year original sample of 20 cases. We considered that it was appropriate to test a further sample of non-HRA rent rebate cases, selected from cell 015 to ensure that the issues previously identified had not continued during 2017/18.</p> <p>Testing of an additional sample of 40 cases identified 2 cases (total error value £78) 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.</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 above the cap by £818 and understated Expenditure up to the cap by the same amount.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would increase the subsidy receivable by £818.</p>
Non-HRA Rent Rebates- Misclassification of overpayments: Eligible	<p>Our testing in the prior year identified 1 case where the Council misclassified an overpayment as an Eligible overpayment when it should have been classified as a Technical overpayment. This year '100% testing' was carried out on the entire sub-population of 94 cases in order to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 15 cases where the overpayment should have been classified as a Technical overpayment in 8 cases and LA error and administrative delay overpayment in 7 cases.</p> <p>These errors have led to an overstatement of Eligible overpayment (cell 028) by £4,158 and a corresponding understatement of Technical overpayment (cell 027) by £2,466 and LA error and administrative delay overpayment (cell 026) by £1,692.</p>	<p>As the testing was performed on the entire sub-population of cases, management has amended the claim form for the errors identified.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
<p>Rent Rebates- Misclassification of overpayments: Eligible</p>	<p>Testing in the prior year identified 5 cases out of 43 tested where the overpayment was incorrectly classified and should have been classified in cell 065 (LA error and administrative delay overpayments). No errors were identified from testing of the current year initial sample of 20 cases. We considered that it was appropriate to test a further sample of HRA rent rebate cases, selected from cell 067 to ensure that the issues previously identified had not continued during 2017/18.</p> <p>Testing of an additional sample of 40 cases identified:</p> <ul style="list-style-type: none"> <li>• 6 cases (total error value £633) selected from cell 067 where the overpayment was incorrectly classified and should have been classified in cell 065 (LA error and administrative delay overpayments), resulting in an overstatement of cell 067 and corresponding understatement of cell 065.</li> <li>• 2 cases (total error value £55) selected from cell 067 where the expenditure was incorrectly classified and should have been classified in cell 061 (HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not otherwise separately identified in this section), resulting in an overstatement of cell 067 and corresponding understatement of cell 061.</li> </ul> <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 £5,458 and understated LA error and administrative delay overpayments by £5,025 and understated HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not otherwise separately identified in this section by £433.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would increase the subsidy receivable by £3,275.</p>
<p>Rent Allowances- Earned Income</p>	<p>Our testing in the prior year 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 2017/18 and to quantify the results.</p> <p>Our testing identified that earned income had been incorrectly applied in benefit calculations in 7 cases resulting in benefit being underpaid in 5 cases (total error value £7) and overpaid in 2 cases (total error value £84).</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 £47,012. 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 not affect the subsidy receivable as the Council is below the lower threshold for LA error and administrative delay overpayments.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Eligible overpayments	<p>Testing in the prior year identified 7 cases out of 43 sampled where the overpayment was incorrectly classified and should have been classified in cell 113 (LA error and administrative delay overpayments). No errors were identified from testing of the current year original sample of 20 cases. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Testing of an additional sample of 40 cases identified 3 cases (total error value £689) where the overpayment was incorrectly classified and should have been classified in cell 113 (LA error and administrative delay overpayments), resulting in an overstatement of cell 114 and corresponding understatement of cell 113. Testing also identified 1 case (error value £145) where the expenditure was incorrectly classified as an eligible overpayment and should have been classified in cell 103 (LHA Expenditure: Total expenditure in claims administered under LHA rules).</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 £59,477 and understated LA error and administrative delay overpayments by £49,069 and LHA expenditure by £10,408.</p> <p>If DWP decided to adjust for the extrapolated error reported, this would increase the subsidy receivable by £35,686.</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 £1,295,500 of which £225,000 was payable to MHCLG.

MHCLG requires that we perform agreed-upon procedures (AUP) in respect of this return but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to undertake an AUP engagement.

**FINDINGS AND IMPACT ON RETURN**

Our work did not identify any issues or exceptions to report. The agreed-upon procedures were completed before the deadline of 11 January 2019.

**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 we perform agreed-upon procedures (AUP) in respect of this return but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to undertake an AUP engagement.

**FINDINGS AND IMPACT ON RETURN**

Our procedures identified that prior year refunds in the relevant box included refunds totalling £5,846 which relate to the 2017/18 year. This amount should have been included as current year adjustments within the Teachers' Contributions (£2,378) and Employer's Contributions (£3,468) boxes. Total contributory salary for the year has also been overstated by £21,044. Management has amended the return for these issues. These amendments had no net impact on the total amount payable to Teachers' Pension during the year.

The deadline for certification was 30 November 2018, but the work was completed on 7 March 2019 due to delay in receiving relevant supporting documents and information required to complete our work. Also, we had been provided with incorrect monthly payroll reports which led to a number of discrepancies between these reports and the TP return, and investigation of these differences needed additional time. Subsequently, the correct payroll reports were provided which we have reconciled to the TP return.

# APPENDICES

## APPENDIX I: FEES SCHEDULE

	2017/18 FINAL	2017/18 PLANNED	2016/17 FINAL	
	£	£	£	EXPLANATION FOR VARIANCES
<b>PSAA regime</b>				
Certification fee (Housing benefit subsidy claim)	26,736	24,500	13,993	<p>The 2016/17 fee was on the basis that a contractor undertaking initial testing and BDO re-performing a sample. The 2017/18 fee was on the basis of BDO performing the full testing without a contractor involvement.</p> <p>The final fee for 2017/18 is inclusive of a fee variation of £2,236, agreed with management. This has been submitted to PSAA for approval. The fee variation is due to additional time spent on reviewing the accuracy and completeness of earned income population which has been prepared manually and subsequent to our initial work.</p>
<b>TOTAL PSAA REGIME FEES</b>	<b>26,736</b>	<b>24,500</b>	<b>13,993</b>	
<b>Agreed-upon procedures work</b>				
Pooling of Housing Capital Receipts return	3,200	3,200	3,200	N/A
Teachers' pensions return	4,950	4,200	4,200	<p>The 2017/18 final fee is inclusive of a fee variation of £750 which was agreed with management. We had been provided with incorrect monthly payroll reports which led to a number of discrepancies between these reports and the TP return, and investigation of these differences needed additional time. Subsequently, the correct payroll reports were provided which we have reconciled to the TP return. Also, there was a delay in receiving relevant supporting documents and information required to complete our work.</p>
<b>TOTAL FEES FOR AGREED-UPON PROCEDURES</b>	<b>8,150</b>	<b>7,400</b>	<b>7,400</b>	
<b>TOTAL FEES</b>	<b>34,886</b>	<b>31,900</b>	<b>21,393</b>	



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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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