



# LONDON BOROUGH OF BARNET

## GRANT CLAIMS AND RETURNS CERTIFICATION

In respect of claims and returns for the year ended 31 March 2016

DRAFT 9 January 2017



# INTRODUCTION

## Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2016.

### 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 grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by PSAA and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the relevant Departments, of the Pooling of housing capital receipts return and the Teachers' Pensions return for the year ended 31 March 2016.

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.

## Fees

We reported our planned fees for the housing benefits subsidy claim in our Audit Plan and this remains at the level proposed by PSAA.

We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES (£)	FINAL FEES (£)
<b>PSAA regime</b>		
Housing benefits subsidy claim	21,617	21,617
<b>Total PSAA regime fees</b>	<b>21,617</b>	<b>21,617</b>
<b>Other certification work</b>		
Pooling of housing capital receipts return	2,500	2,500
Teachers' pensions return	5,000	5,000
<b>Total certification fees</b>	<b>29,117</b>	<b>29,117</b>

## KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2016. Where our work identified issues which resulted in either an amendment or a qualification, further information is provided. An action plan is included at the Appendix of this report.

CLAIM OR RETURN	VALUE	QUALIFIED	AMENDED?	IMPACT OF AMENDMENTS
Housing benefit subsidy	£267,764,200	YES	YES	+£1,443
Pooling of housing capital receipts	£11,685,180	NO	YES	(£40,303)
Teachers' pensions	£12,597,025	YES	YES	Unable to assess impact of errors

### HOUSING BENEFIT SUBSIDY

### FINDINGS AND IMPACT ON RETURN

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 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 £267,764,200.

Our audit of an initial 60 individual claimant files across different benefit types highlighted a number of errors in administering benefit, calculating subsidy entitlement or in the preparation of the form.

Where an error in calculations suggests that benefit has been overpaid or amounts allocated to too high a subsidy recovery cell, guidance requires auditors to undertake extended 40+ testing of cases with similar characteristics or all cases in a small population. Such testing is also undertaken as part of our follow-up of prior year issues reported. The testing results in a correction of the error where this can be isolated or an extrapolation across the population.

Where there is no impact on subsidy claimed, for example where the error always results in an underpayment of benefit, we are required to report this within our qualification and observations letter.

Errors in the initial testing resulted in two areas of 40+ testing and three areas where all cases in the population were reviewed. Adjustments made as a result of this additional testing increased the amount of subsidy claimed by £1,443.

The claim was certified on 19 December after the Government's deadline of 30 November 2016 in order to complete the additional testing.

Our audit certificate was qualified to refer to the adjustment for non-HRA self employed earnings being based only on an extrapolation as the Council could not isolate and correct for all errors. We also referred to some uncertainty in the application of the guidance for benefit calculations covering student loan income and term time child care costs.

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 findings can be found on the next page.

## KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Non-HRA rent rebates	<p>The Council had made incorrect adjustments to the current year claim for overpayments identified and processes against claimants in the following year. These should fall into the following year's claim.</p> <p>Council staff carried out additional work to review all cases where a manual adjustment reflecting overpayments identified in the following year had been made and found £364 that should have been included as paid over the threshold (at 0% subsidy) rather than other benefit (at 100% subsidy).</p>	Claim form adjusted resulting in reduced subsidy of (£364).
Non-HRA rent rebates	<p>Non-recovered overpayment of Discretionary Housing Payments had been erroneously netted off against non-HRA subsidy amounts correctly paid.</p> <p>Council staff carried out additional work for all cases with negative adjustments greater than £100 and identified six cases totalling £5,451 where this error had occurred and should be added back to the form.</p>	Claim form adjusted resulting in additional subsidy of £5,451.
Non-HRA rent rebates	<p>In the initial testing we found three errors in calculating self employed earnings resulting in overpayments. In the 40+ testing, we found five further errors but these did not result in overpayment of benefit. The extrapolation of the error rate over all non-HRA rent rebate cases with self employed earnings suggested that the Council may have overpaid £6,406 of benefit.</p>	<p>Claim form adjusted resulted.</p> <p>However, as the Council remains below the lower threshold for overpayments made it has been able to recover this through the allowance for Local Authority and Administrative delays.</p>
HRA rent rebates	<p>Our initial testing found one case where a manual amendment had been incorrectly processed by the Council for a case where an overpayment was created within an extended payment period. Council staff carried out additional work to review all cases with adjustments for extended payments and identified four additional errors, with a total of £292 to be removed from the form.</p>	Claim form adjusted resulting in reduced subsidy of (£292).
HRA rent rebates	<p>Our initial testing found one case with incorrect non-dependant income amounts. In the 40+ testing, we found five further errors. For each case there was no impact on the benefit paid.</p>	No impact
Rent Allowances	<p>As part of the process for preparing the form, the Council was required to make a number of manual corrections. However, it failed to include the correction to reduce amounts claimed by £3,352 for payments made before year end that related to entitlement entirely for the following year.</p>	Claim form adjusted resulting in reduced subsidy claimed of (£3,352).

## KEY FINDINGS

### POOLING OF HOUSING CAPITAL RECEIPTS

Local authorities are required to pay a portion of any housing capital receipt (usually 75%) 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 £11,685,180 for 76 disposals, of which £1,791,841 was payable to the Department for Communities and Local Government (DCLG). A significant amount of sales receipts were transferred into 1-4-1 new build budgets that are time limited to remain exempt from pooling.

### FINDINGS AND IMPACT ON RETURN

Our review found the following errors in the draft return that were corrected:

- A transposition error in quarter 3 for one dwelling sale resulted in receipts being understated by £30,000 (but as taken to 1-4-1 budgets this did not impact on amounts payable in year)
- Mortgage repayments receipts were understated by £10,303 (increased amount payable by £7,727 at 75% of receipts)
- Amount of spend on 1-4-1 replacement social housing in 2015/16 had omitted expenditure of £7,555,000 (reduces the balance of 1-4-1 receipts to be used before becoming time exempt and repayable as pooled receipts)
- The draft return had removed the amount of attributable debt allocated to the dwellings disposed of at £557,108.

We noted that the Council retains a significant amount of receipts to be used to support 1-4-1 new social housing development at £84,730,872 to be applied before 31 March 2019. There are quarterly time limits to use this retained funding including £28.9 million by 31 March 2017 and £63.9 million by March 2018.

We recommend that the Council has a clear budget to demonstrate that these amounts will be applied by the due dates and a contingency plan in the event of any slippage on schemes.

# KEY FINDINGS

## TEACHERS' PENSIONS

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 return provided for audit recorded total pensions payable at £12,597,025 on payroll costs of £47.2 million.

## FINDINGS AND IMPACT ON RETURN

Our review found the following errors in the draft return that were corrected:

- Contributions Salary for Tier 2 employees in Period 1 in the return was understated by £4,164,000
- The section for amounts paid for the year had been left blank and was amended to include the amount notified by the Teachers' Pensions at £18,131,482. However, the Council could not provide records to reconcile this amount to amounts paid recorded in the ledger.

Our testing of a sample of deductions and contributions for 30 teachers found the following issues.

### Incomplete submission

We found one teacher who had not been included in the return where it is believed that the school had started to submit its own returns. There is a requirement for the Council to include all schools under its control in the return including consolidating the records for schools who operate their own payroll and submit separate returns.

Further investigation suggests that there may be four schools where the Council had omitted the amounts from the return.

### Incorrect reporting of Tiered pension rates

We found one teacher who had received a refund of contributions when opting out of the scheme, but where the relevant amounts in the Tiered rates had been incorrectly reported in the return.

We also found two teachers where the monthly payroll amount had been allocated into the incorrect Tiered rate table where there was a system error during the year that had not been resolved, although the deductions were correct. A review of deduction and pay records found potentially many other teachers that had amounts allocated into incorrect Tier bands.

### Inappropriate netting off refunds

Our review of records noted refunds made for prior year contributions where the form had reported £0 for refunds. It appears that these are being incorrectly netted off against current year contribution amounts.

### Qualification

As a result of the omission of some schools from the return and errors in our sample testing, we were unable to conclude that the form had been properly prepared and that all amounts payable had been collected, recorded and paid over.

# APPENDICES

## APPENDIX: 2015/16 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>Housing benefits subsidy</b>					
Testing in the prior year and current year found errors in the calculation of self employed earnings of claimants.	Develop quality assurance processes or other checking of calculations for self employed earnings cases.	Medium	We are compiling a list of issues raised as a result of the subsidy audit, quoting actual cases. This will then be reviewed by the Benefits Management Team and action points will be agreed in terms of which issues need highlighting to staff and which require formal training. We have contacted our Training Team to request a session on assessing self-employed income.	Patricia Driver	By 31/3/17
We noted that the Council did not have a policy for assessing the proportion of private use of assets for self employed claimants when assessing earned income. Our testing found two cases for use of a privately owned car used as a taxi where the basis of allocation as private or business use was not clear.	Develop a policy for assess the proportion of private or business use of assets used to assess earned income.	Medium	We note the recommendation but that the regulations do not dictate how this expense should be treated. Recognising that a consistent manner should be deployed across the authority, a procedure note and staff instruction will be distributed to the assessment teams. There is requirement for the council to set a formal policy for this.	Patricia Driver	By 31/3/17
<b>Pooling of housing capital receipts</b>					
The Council retains a significant amount of receipts to be used to support 1-4-1 new social housing development at £84,730,872 to be applied before 31 March 2019.	We recommend that the Council has a clear budget to demonstrate that 1-4-1 pooled receipts will be applied by the due dates and a contingency plan in the event of any slippage on schemes.	High	The Council has a complete breakdown of receipts and the 'need to spend' dates. Matched against this are projections on a quarter by quarter basis. This shows that there is a potential problem in quarters 3 and 4 of 2016/17 but thereafter projected spend exceeds the need to spend by an increasing amount. This is monitored on at least a quarterly basis.	Conway Mulcahy	In place and ongoing



## APPENDIX: 2015/16 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>Teachers' Pensions</b>					
We found that some schools had not been included in the return. There is a requirement for the Council to include all schools under its control in the return including consolidating the records for schools who operate their own payroll and submit separate returns.	Ensure that all schools, regardless of whether they operate a separate payroll and payments to Teachers' Pension, are consolidated into the return.	High	We will ensure that all schools including those who operate a separate payroll, are included into the main Teachers' Pensions End of Year Return. We will send out communications to these schools to ensure we receive the required information so that we can submit the End of Year Certificate.	Capita HR Solutions	April 2017
The Council could not provide records to reconcile the amounts notified as received by the Teachers' Pension Agency to its own records of contributions paid over.	Reconcile amounts paid to Teachers' Pension notification.	High	We will ensure that the Teacher's Pension Agency have the correct contact details for communication and implement a reconciliation to our records	Capita HR Solutions	April 2017
We found instances where the teacher's pay had been allocated to an incorrect Tier banding in the return, although the amounts actually deducted appeared to be correct. A review of deduction and pay records found potentially many other teachers that had amounts allocated into incorrect Tier bands.	Ensure proper completion of the form per the guidance for Tiered banding of pay.	Medium	This issue was a reporting error and not an error in the actual monetary amount paid to Teachers' Pensions, after deduction from employees. Our system suffered a fault which resulted in contributions being deducted at the wrong rate. We subsequently corrected this which resulted in the pensionable pay total showing as being incorrect. We will ensure that the next End of year Certificate is accurately prepared to mitigate any confusion or error.	Capita HR Solutions	April 2017
Our review of records noted refunds made for prior year contributions where the form had reported £0 for refunds. It appears that these are being incorrectly netted off against current year contribution amounts.	Ensure proper completion of the form per the guidance for refunds of prior year contributions.	Medium	Capita have a specialist pensions team based in Edinburgh.  We will ensure that the correct reporting method is used, and will ensure that refunds are reported in the correct section and are not netted off against current year contributions.	Capita HR Solutions	April 2017

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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