



# LONDON BOROUGH OF BARNET

## GRANT CLAIMS AND RETURNS CERTIFICATION

In respect of claims and returns for the year ended 31 March 2017

15 January 2018



# 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 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 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 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 2017.

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 in our Audit Plan. The indicative Housing benefits subsidy claim fee is set 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	20,310	20,310
<b>Total PSAA regime fees</b>	<b>20,310</b>	<b>20,310</b>
<b>Other certification work</b>		
Pooling of housing capital receipts return	2,750	2,750
Teachers' pensions return	5,000	5,000
<b>Total certification fees</b>	<b>28,060</b>	<b>28,060</b>

In respect of the prior year (2015/16) Housing benefits subsidy claim, we were asked by DWP to undertake additional work in response to issues raised that year. We have since raised supplement fees of £2,009.

## KEY FINDINGS

Below are details of 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, 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	£271,841,415	YES	YES	(£15,490)
Pooling of housing capital receipts	£12,049,814	NO	YES	(£843)
Teachers' pensions	£18,877,139	YES	NO	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 £271,856,905.

The Council's processes for administering benefits and preparing the subsidy return are generally sound.

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

Where errors in calculating benefit awarded 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.

Errors in the initial testing resulted in four areas of 40+ testing (non-HRA self employed earnings, classification of non-HRA eligible overpayments, HRA child care costs, HRA tax credits) and one area where all similar cases in the population were reviewed (HRA extended payments). We prepared an extrapolation of the potential errors in the population based on this 40+ testing and the final claim has been amended for these. We also noted that modified scheme entries had been duplicated in one section of the claim but this did not impact on subsidy claimed.

A summary of these issues can be found on the next page.

The overall impact has been to reduce subsidy claimed by £15,490.

The claim was certified on 29 November 2017 referring to the corrections made.

## KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Self-employed earnings (non-HRA)	Due to errors in self-employed earnings calculations in previous years, we completed 40+ testing and found one case with an error that created an 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 £621 of benefit.	Claim form adjusted resulting in reduced subsidy of £621.  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.
Misclassified overpayments (non-HRA)	Initial testing identified one claim where eligible overpayments should be been recorded as technical overpayments. 40+ testing identified a further 5 misclassified overpayments. The extrapolation of the error rate over all non-HRA rent rebate eligible overpayment cases suggested that the Council may have misclassified £38,570 of overpayments.	Claim form adjusted resulting in reduced subsidy of £15,428, as eligible overpayments attract subsidy at 40% of payments whereas technical overpayments do not attract subsidy.
Childcare disregards (HRA)	Due to errors in processing child care disregards in previous years, we completed 40+ testing and found 12 cases with an error, where 10 resulted in overpayment of benefit. The extrapolation of the error rate over all HRA rent rebate childcare disregards cases suggested that the Council may have overpaid £19,939 of benefit.	Claim form adjusted resulting in reduced subsidy of £19,939.  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.
Tax credits (HRA)	Initial testing identified one claim where tax credits had been calculated on outdated information resulting in a underpayment. 40+ testing identified one further error creating an overpayment of benefit. The extrapolation of the error rate over all HRA rent rebate tax credit cases suggested that the Council may have overpaid £866 of benefit.	Claim form adjusted resulting in reduced subsidy of £866.  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.
Extended payments (HRA)	Due to errors in extended payments in previous years all cases were tested this year. This found one case where the extended payment should have been reported as an eligible overpayment.	Claim form adjusted resulting in reduced subsidy of £62, as eligible overpayments attract subsidy at a reduced 40% of payments.

## 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 £12,050,657 for 66 disposals. 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:

- The quarterly returns had failed to apply the correct local authority field so that all attributable debt amounts assigned to each sale were incorrect. This increased the attributable debt on sales from £567,153 to £2,201,165 and also reduced the amount of retained receipts that need to be used to fund 1-4-1 new build housing before this would be subject to pooling to DCLG.
- Transaction costs for disposals in Quarter 4 of £34,200 had also been incorrectly included as costs of buying back previously disposals.
- Mortgage repayment receipts in Quarter 1 of £2,531 had been incorrectly entered as £3,374.

Further updates were also required in respect of amendments made in previous years to the amount of 1-4-1 new build expenditure that had not been carried forward correctly into this year's returns.

While the impact of these adjustments for receipts payable to DCLG reduced by only £843, the cumulative amounts required to be spent on 1-4-1 new build housing by 2020 reduced by £5.4 million to £108 million.

Management has stated that it has plans in place to ensure that this retained funding is applied by each required date so that it does not become subject to pooling in future years.

We provided an unmodified report on the return on 8 November 2017.

# 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 EOYC, which the Council is required to submit to Teachers' Pensions.

The return provided for audit recorded total pensions payable at £18,877,139 on payroll costs of £73.5 million.

## FINDINGS AND IMPACT ON RETURN

We are pleased to report that there have been some improvement in preparing the return this year. In the previous year, we reported that the Council had failed to include maintained schools that operated or outsourced their own payrolls and this year this information has been captured and included in the Council's return. However, we found the following errors and inconsistencies in this year's return.

Preparation of the return:

- The pensionable pay information and contributions deducted are allocated to each tiered pay banding and the deductions are checked in total to the expected percentage deductions. We noted some differences where deductions appeared to be £88,295 lower from teachers and £200,095 lower from the Council than expected based on this information. The majority of the differences had occurred on information provided by schools that had outsourced their payroll.
- Teachers' Pension provided incorrect information on the total amount of contributions that its records suggested had been paid and we were unable to reconcile amounts to information retained by the Council.
- All amounts for Career Average Flexibilities and for Additional Pension Payments had been incorrectly included in the section for Additional Contributions from teachers.
- We were unable to confirm that all schools had provided complete information as records suggest that there are 15 schools that had outsourced their payroll, but only 10 returns were provided for April 2017, 11 for May 2017 and between June 2017 and March 2018 we received only aggregated information and could not check the information for individual schools. There was also a difference of £82,883 between the amounts included in the return and the underlying payroll records reviewed for these schools.

Testing of a sample of 20 teachers to underlying information:

- Two teachers had opted out of the scheme in the previous year but deductions continued to be made on their monthly salaries.

We reported these issue in our report on the return on 21 December 2017.

# APPENDICES

## APPENDIX: 2016/17 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>Teachers' Pensions</b>					
<p>We were unable to confirm that all schools had provided complete information as records suggest that there are 15 schools that had outsourced their payroll, but only 10 returns were provided for April 2017, 11 for May 2017 and between June 2017 and March 2018 we received only aggregated information and could not check the information for individual schools. There was also a difference of £82,883 between the amounts included in the return and the underlying payroll records reviewed for these schools.</p>	<p>Obtain and retain on record the monthly payroll reports for each school the has outsourced its payroll.</p>	<p>Medium</p>	<p>The third-party payroll providers are responsible for processing the payroll accurately and deducting the correct contributions from employees. Capita have no control or influence over these schools in any way.</p> <p>They are also responsible for preparing the monthly contribution slip figures to be passed over to Capita for submission. As Capita do not process the payroll for these schools, they are unable to verify the accuracy of the payroll reports if they were to be provided. On this basis we do not feel that it is possible for Capita to receive the payroll reports from third-party payroll providers and carry out any reconciliations.</p> <p>Capita will of course contact the schools to make them aware of the compliance required and it is suggested that Barnet Council impress on the third-party payroll providers the importance of accurate data and payments for Teachers' Pensions.</p>	<p>John Kirkpatrick, Payroll Manager, Capita HR Solutions</p>	<p>31 March 2018</p>

## APPENDIX: 2016/17 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>Teachers' Pensions</b>					
Teachers' Pension provided incorrect information on the total amount of contributions that its records suggested had been paid and we were unable to reconcile amounts to information retained by the Council	<p>Obtain information on payments made to Teachers' Pension directly by schools that have outsourced its payroll.</p> <p>Reconcile total Council and outsourced payroll provider payments made to Teachers' Pensions to the notification of receipted amounts provided by Teachers' Pensions.</p>	Medium	<p>The figure provided to Capita by Teachers' Pensions was human error on the email they sent, due to incorrect calculations of the 12 monthly payments. This was spotted, and recalculated correctly.</p> <p>A reconciliation is carried out by Capita to ensure that the monthly contribution slip completed and submitted for the third-party payroll providers matches the funds received by Barnet Finance team.</p>	John Kirkpatrick Payroll Manager, Capita HR Solutions	Ongoing
All amounts for Career Average Flexibilities and for Additional Pension Payments had been incorrectly included in the section for Additional Contributions from teachers.	Ensure that all different types of deductions are reported in the correct sections of the return.	Medium	This issue will be addressed through further training.	John Kirkpatrick, Payroll Manager, Capita HR Solutions	Immediate

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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