

Certification of claims and returns - annual report

Dacorum Borough Council

Audit 2010/11



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Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other organisations (grant-paying bodies). Local authorities also complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable.

- 1 Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

 - for claims and returns below £125,000 the Commission does not make certification arrangements;
 - for claims and returns between £125,000 and £500,000, I undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure; and
 - for claims and returns over £500,000 I plan and perform my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertake testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.
- 2 Where certification work identifies no issues, I complete the auditor's certificate. This confirms that a claim or return agrees with the underlying records or, for larger claims, is fairly stated and in accordance with the relevant terms and conditions. This provides the grant-paying body with positive assurance about a scheme. It provides evidence that funding has been used or claimed as intended or that information in a return is reliable. Grant-paying bodies attach significant value to this positive assurance that there are no issues requiring attention.
- 3 On occasions, my certification work will identify errors or non-compliance with scheme terms and conditions. Where I am able to agree an amendment to a claim or return with officers, I will certify an amended version of the claim or return. If I cannot agree an amendment to the claim or return, I will set out the issues in a qualification letter to the grant-paying body for it to decide the action required.

4 This report summarises the outcome of my certification work on your 2010/11 claims and returns. I completed most of this work towards the end of 2011, in line with timetables specified by grant-paying bodies. This report draws on my detailed work on each of the claims or returns I certified in 2010/11, and the qualification letters I issued in respect of certain claims.

5 This report covers:

- the number and value of claims and returns certified;
- my findings and recommendations arising from 2010/11 certification work;
- a summary of the progress made by the Council in implementing my previous recommendations; and
- the cost of certification work.

Summary of my 2010/11 certification work

6 In 2010/11, I certified seven claims and returns on behalf of the Council. Of these:

- Three related to claims for funding totalling £53.1 million.
- Three related to payments of £78.7 million to government departments.
- One was a data return used by The Department for Communities and Local Government (DCLG) to determine the future level of debt to be transferred to the Council following abolition of the Housing Revenue Account subsidy system.

7 My work identified that amendments were required to four of the seven claims and returns I certified. I also issued a qualification letter in respect of one of these claims. The detailed findings arising from my testing of each claim are set out in the next section of my report. A number of the issues I identified are similar to those included in my 2009/10 report, indicating that the Council needs to take further steps to fully embed the processes it introduced in response to the recommendations I made last year.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total value of claims and returns certified	£131,811,098
Number of claims and returns amended due to errors	4
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	1
Total cost of certification work	£66,600

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Overall arrangements for the certification of claims and return

8 My certification work identified that the Council could further improve its processes in key areas, particularly the adoption of a consistent approach to the compilation of claims and returns. My work identified that the processes introduced by the Council to address the recommendations I made last year are not yet working consistently across all areas. For example, the Council has not yet:

- Ensured that the working papers to the specified level and standard are provided to the officer certifying the claim, and the auditor.
- Identified the officers responsible for reviewing claims and returns, and the supporting working papers, prior to that claim or return being submitted to the certifying officer, and the auditor.

Addressing these issues could help the Council to minimise future certification costs.

9 In November 2010 the Commission refreshed its good practice guidance for authorities. The guidance *Claims and returns: Good practice for authorities* is available on the Commission's website (www.audit-commission.gov.uk). I would encourage the Council to use this guidance to review its arrangements for preparing claims and returns.

Recommendations

- R1** The Council should nominate an officer to review the working papers files relating to claims and returns before certification and submission for audit, ensuring that the claim or return:
- Has been prepared in accordance with guidance issued by the grant-paying body; and
 - Is supported by sufficient, appropriate evidence.
- R2** The Council should establish a standard working paper file structure for officers preparing grant claims to follow. As a minimum this should include:
- Evidence that entries on the claim or return have been agreed to the general ledger or other relevant system. Supporting extracts from that system should be provided.
 - A comparison of entries on the claim or return with those for the prior period, together with evidenced explanations for significant variances.
 - Evidence that the claim is arithmetically correct.

10 Table 2 below summarises the outcomes from my 2010/11 certification work. Further comments are provided in respect of specific claims and returns in paragraphs 11 - 19.

Table 2: **Summary of outcomes from 2010/11 certification work**

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made***	Was a qualification letter issued?
Housing and council tax benefit scheme	£50,529,616	No	£1,876	Yes
Pooling of housing capital receipts	£2,599,455*	No	£23,000	No
HRA subsidy	£17,979,792*	Yes	None	No

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made***	Was a qualification letter issued?
Housing finance base data return	Data return only	No	See paragraph 17	No
National non-domestic rates return	£58,090,282*	Yes	None	No
East of England Development Agency: Maylands Business Centre (Axis Point)	£2,314,953	Yes	£87	No
Disabled facilities**	£297,000	Not applicable	None	No

* Denotes those claims where the amount is paid to central government.

** As the value of this claim was below £500,000, my testing was limited to agreeing entries on the form entries to underlying records.

*** All of the amendments identified by my testing reduced the amount due to the Council.

Housing and Council Tax Benefit

11 Local authorities are responsible for administering housing and council tax benefits and claim subsidy from the government towards the cost of the benefits awarded. The scheme and benefit subsidy is complex. It involves a high volume of transactions and changes to the scheme can sometimes be difficult to administer.

12 Amendments made to the Council's 2010/11 claim were minor and related to instances of one-off errors. These amendments resulted in an overall reduction in the amount of subsidy payable to the Council of £1,876. I did, however, qualify the entries in respect of ten cells. Reasons for my qualification included:

- Errors in the assessment of claimants' income, leading to an under or over payment of benefit (6 instances across 3 cells).
- Errors in the assessment of the rent payable by the claimant, leading to an overpayment of benefit (5 instances in 1 cell).
- Errors in the calculation and classification of overpayments (46 instances across 7 cells).

13 I have set out in Appendix 1 further details on the extent of the errors identified by my testing. The Department for Work and Pensions will consider the findings set out in my qualification letter and notify the Council of any impact on the level of subsidy due to the Council. Any reduction in the amount of subsidy will be netted off against subsidy payments due to the Council in 2011/12.

14 My fee for certification of this claim accounts for 79% of my total certification fees for 2010/11 (79% in 2009/10). An increase in the level of errors identified by my testing, together with that the fact that officers were unable to support my audit to the extent they had in previous years, resulted in an increase in my fees for my work on this return.

15 The timing of my work on the Council's claim for Housing and Council Tax benefit meant that the actions taken by the Council to address the recommendations I made last year had limited impact on my findings for 2010/11. However, given the extent of the errors identified by my testing in 2010/11 and previous years, it is important that the Council continues its focus on reducing the level of errors in assessing claims and classifying overpayments.

16

Recommendation

R3 The Council should take further steps to reduce the level of errors in assessing claims for housing and council tax benefit, and the classification of overpayments. The Council should:

- Increase the extent of the checks performed on new benefit calculations by senior staff within the Benefits team.
 - Increase the extent of the checks performed on the classification of overpayments by senior staff within the Benefits team.
-

Pooling of Housing Capital Receipts

17 A proportion of the housing capital receipts generated by councils are paid into a pool administered by DCLG. These are then redistributed to those councils assessed as having the greatest housing need. My testing of the Council's return in respect of this scheme identified that the Council had incorrectly deducted from the amount to be pooled a sum of £23,000 (relating to the cost of improvement works undertaken on dwellings purchased under the Right to Buy scheme). The Council corrected this error in a subsequent return and I was able to certify the 2010/11 Return without qualification.

Housing Finance Base Data Return

18 DCLG has confirmed its intention to reform local authority housing finance by adopting a self-financing model from 1 April 2012. Under this new financing system, councils will be responsible for financing their Housing Revenue Account, and the existing system of grants and payments would end. To fund this, DCLG will make payments to certain local authorities and in the case of those councils contributing to the housing subsidy system, it would transfer a debt liability. DCLG confirmed that it would use the Housing Finance Base Data Return (the Return) as a basis for calculating the debt liability of each authority.

19 My testing of this return identified that the Council's analysis of its dwelling stock was inconsistent with survey data held by the Council. Officers corrected these errors prior to my certification of the Return, and I certified the Council's Return without qualification. Further details of these amendments made to this Return are set out in Appendix 2 of my report.

20 In February 2011 DCLG set the Council's debt liability at £354 million. The transfer will take place on 28 March 2012. At this stage DCLG have not yet specified how it will collect data on changes to the Council's housing stock or what, if any, certification arrangements will be made in relation to any data return.

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

21 In the table below, I have summarised the progress made by the Council in implementing the recommendations I have made previously in relation to my certification work. In some areas the progress made by the Council has been limited. Where relevant, I have repeated previous recommendations elsewhere in this year's report.

Table 3: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
The Council would nominate one officer to review the working paper files supporting claims and returns before certification and submission for audit. That officer would be responsible for ensuring the claim is supported by sufficient, appropriate evidence.	High	31 March 2011	Assistant Director (Finance & Resources)	Certification work undertaken in 2010/11 demonstrated that this recommendation had not yet been implemented – see paragraph 8.	The Council introduced a system whereby the main accountant responsible to each Directorate would compile the claim which would then be subject to review by the Team Leader or Group Manager. Delays in recruitment meant that this control was not implemented in full in 2010/11.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
The Council agreed to establish a standard working paper file structure for prepares of grant claims to follow.	High	31 March 2011	Assistant Director (Finance & Resources)	Certification work undertaken in 2010/11 demonstrated that this recommendation had not yet been implemented – see paragraph 8.	A specific grant file was reviewed and compiled to an agreed standard. This standard now needs to be applied to all claims submitted for audit.
The Council agreed to take steps to reduce the level of errors in assessing claims for housing and council tax benefit, by increasing the level of training for assessment officers, and increasing the extent of checks performed on new and amended benefit calculations.	High	31 March 2011	Assistant Director (Finance & Resources)	While the Council has taken steps to improve performance in the assessment of claims, the impact of these was not yet evident from my work on the Council's 2010/11 claim. It is important that the Council continues its focus on reducing the level of errors in assessing claims and classifying overpayments.	A steep increase in the number of claims, the introduction of the ATLAS automatic updating system (which multiplied claim amendments), and a short period of change of Group Managers all increased the risk of processing errors in 2010/11. The introduction of a simplified system for write-offs has made it easier to identify high-value local authority errors but multiple low value errors continue to be an issue.
The Council agreed to obtain survey data for all its social housing properties, ensuring the Council was able to support the analysis required by the Housing Subsidy Base Data Return.	High	31 March 2011	Assistant Director (Finance & Resources)	Certification work undertaken in 2010/11 confirmed this recommendation had been implemented.	Extended survey work and thorough review of the Housing stock database as part of the preparations for Self Financing have addressed this issue.

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 4: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
<p>The Council should nominate one officer to review the working paper files relating to claims and returns before certification and submission for audit, ensuring that the claim or return:</p> <ul style="list-style-type: none">■ Has been prepared in accordance with guidance issued by the grant-paying body; and■ Is supported by sufficient, appropriate evidence.	High	The Group Manager (Financial Services) will undertake this function, supported by the Team Leader, Management Accounting	1/4/2012	Group Manager (Financial Services)
<p>The Council should establish a standard working paper file structure for officers preparing grant claims to follow.</p>	High	A standard working paper structure has been established. This will be rolled out across all 2011/12 claims still to be audited.	1/4/2012	Group Manager (Financial Services)

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
<p>As a minimum this should include:</p> <ul style="list-style-type: none"> ■ Evidence that entries on the claim or return have been agreed to the general ledger or other relevant system. Supporting extracts from that system should be provided. ■ A comparison of entries on the claim or return with those for the prior period, together with evidenced explanations for significant variances. ■ Evidence that the claim is arithmetically correct. 				
<p>The Council should take steps to reduce the level of errors in assessing claims for housing and council tax benefit, and the classification of overpayments. The Council should:</p> <ul style="list-style-type: none"> ■ Increase the extent of the checks performed on new benefit calculations by senior staff within the Benefits team. ■ Increase the extent of the checks performed on the classification of overpayments by senior staff within the Benefits team. 	High	<p>Reduction in current processing backlogs will enable the introduction of more extensive review processes. Liberata are to undertake performance assessment work between March and July 2012 to provide analysis of areas where processing performance could be improved.</p> <p>A joint training post has been established with Chiltern District Council which will increase the technical training available and thus decrease misclassification and other errors in future.</p>	1/4/2012	Group Manager (Revenues, Benefits & Fraud)

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 5: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee
Housing and council tax benefit scheme	£52,600	£42,600	Increase in level of errors identified, and a reduction in the level of input from the Council's own staff.
Pooling of housing capital receipts	£1,900	£3,500	The Council had addressed the matters that led to our qualification of this claim in the previous year. This resulted in less audit work being required.
HRA subsidy	£800	£800	
Housing finance base data return	£8,500	£3,700	Additional testing undertaken given the significance of this claim to the future debt structure of the Council. Testing also identified a number of errors, increasing the time taken to audit this claim.
National non-domestic rates return	£1,300	£2,400	Testing identified fewer queries than in previous year.
East of England Development Agency: Maylands Business Centre (Axis Point	£900		No equivalent claim in 2009/10
Disabled facilities	£600	£600	
Total	£66,600	£53,600	

Appendix 1 Housing and Council Tax Benefits Subsidy Claim

¹ The table below provides a summary of the errors I reported to The Department for Work and Pensions in my qualification letter on the Council's claim for housing and council tax benefit subsidy.

Table 6: **Housing and Council Tax Benefit Subsidy Claim**

Cell Description	Cell Value (£)	Reason for Qualification	No. of Cases Tested	No of Errors Identified
Cell 055: Rent Rebates	20,536,235	Claimant's income assessed incorrectly	60	2
Cell 066: Overpaid Rent Rebates (claimant error, current year)	262,225	Misclassification of overpayment	41	5
Cell 071: Overpaid Rent Rebates (claimant error, prior year)	200,469	Misclassification of overpayment	40	6
Cell 094: Rent Allowances	20,097,964	Claimant's income assessed incorrectly	60	3
Cell 099: Rent Allowances – Maximum Rent Cases	2,519,177	Incorrect weekly rent figure used in calculation of benefit, resulting in an overpayment of benefit	43	5

Cell Description	Cell Value (£)	Reason for Qualification	No. of Cases Tested	No of Errors Identified
Cell 109: Rent Allowance Overpayments (claimant error, current year)	336,628	Misclassification of overpayment	43	1
Cell 116: Rent Allowance Overpayments (claimant error, current year)	155,797	Misclassification of overpayment	42	2
Cell 142: Council Tax Benefit	11,022,000	Claimant's income assessed incorrectly Misclassification of overpayment	20	1* 1
Cell 147: Overpaid Council Tax Benefit (Local Authority error)	16,703	Misclassification of overpayment	43	13
Cell 148: Overpaid Council Tax Benefit (claimant error)	145,065	Misclassification of overpayment	43	18

* In this instance benefit had been underpaid.

Appendix 2 Housing Finance Base Data Return

2 The table below provides a summary of the errors in the Council's Housing Finance Base Data Return. These errors were corrected prior to certification of the claim.

Table 7: Housing Finance Base Data Return

Cell	Original Entry	Corrected Entry	Reason for Error
F001mm & F017mm: Pre-1945 small terrace houses	143	141	
F002mm & F018mm: Pre-1945 semi-detached houses	511	501	
F003mm & F019mm: All other pre-1945 houses	167	168	
F004mm & F020mm: 1945-64 small terrace houses	651	499	Amendments to cells F001mm – F024mm corrected errors in the classification of the Council's dwelling stock.
F005mm & F021mm: 1945-64 large terrace/semi-detached/detached houses	3,077	3,242	
F006mm & F022mm: 1965-74 houses	543	549	
F007mm & F023mm: Post 1974 houses	674	679	
F008mm & F024mm: All houses	380	367	
F042mm: Total terminations during 2010/11	604	541	Amendment corrected error in the calculation of the number of tenancy terminations during 2010//11.

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