



St Edmundsbury
BOROUGH COUNCIL

B125

Performance and Audit Scrutiny Committee 26 July 2010

Audit Commission – Certification of Housing and Council Tax Benefits, Disabled Facilities Grants, and National Non-domestic Rates Claims and Returns

SUMMARY

A review of arrangements for the certification of claims and returns has been carried out by the Audit Commission and the results published in September 2009 'Review of arrangements for certifying claims and returns'.

In summary new arrangements were introduced in 2004 to rationalise the regulation framework, to a more proportionate approach, reducing the number of schemes subject to certification, reducing the number of tests applied to these schemes and aiming for a reduction in certification fees. The review found that the new arrangements still provide important and valuable assurances to taxpayers over public funds, and there had been a reduction in certification fees overall, especially at County, Unitary, London Boroughs and metropolitan level but the reduction at District level has not been achieved. This is because there has been less scope for reduction because of the schemes certified, in particular the work is dominated by the housing benefit grant claim which continues to be both complicated and time consuming to certify.

PURPOSE OF THE REPORT

This report details how certification requirements have changed, and sets out the claims that have been certificated at St Edmundsbury in 2008/09. The report also advises members of a qualification letter on the Housing and Council Tax Subsidy claim, and sets out changes which have been put in place as a result of the letter.

The report is for information only, since the Audit Commission made no recommendations for Members.

The Audit Commission's Certification Report can be found at Appendix 1.

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1. Changes to Certification Requirements

- 1.1 The certification requirements have changed on claims and returns below a minimum level, set initially at £50,000 and increased to £100,000 in 2007 and increased again to £125,000 from April 2010. Claims and returns above a minimum level, but below a specified financial level set initially at £100,000 in 2004 and raised to £500,000 from April 2007 have been subject to only a limited range of tests. For claims and returns above the financial threshold, the range of tests applied would depend on the auditors assessment of the strength of the control environment relating to the preparation of each claim or return. The grant paying bodies (eg DWP) have been asked to reduce the certification burden.
- 1.2 The Audit Commission has identified that further reduction in certification fees will be modest unless there are significant changes to the certification work undertaken on the housing benefit scheme. Work on this scheme represents more than half of the certification fees at district level.
- 1.3 The Audit Commission introduced new arrangements for sampling their work on the housing benefit scheme using 'HB COUNT' approach. This new approach combines the sample checking on statistical and financial data into one audit, compared to previous arrangements that audit the statistical information at a different time from the financial grant claim. This approach has standardised testing and integrates the work with other audit responsibilities, and continued for 2008/09.

2. Claims certified at St Edmundsbury, 2008/09

- 2.1 The following table sets out the claims that have been certificated at St Edmundsbury in 2008/09.

Claim	Value	Reliance on control environment	Amended	Qualification letter
Housing and Council Tax benefits scheme	£25,918,969	n/a	Yes	Yes
Disabled facilities Grant	£272,000	Yes	No	No
National Non-Domestic Rates return	£37,221,736	No	Yes	No

- 2.2 The Audit Commission have reported that the control environment and testing assessment for Non Domestic Rates required a full audit test. As the disabled facilities grant fell between the threshold, only limited testing was required, and did not include any testing of eligibility of expenditure. The testing of the control environment was not undertaken (in accordance with Audit Commission guidance).
- 2.3 The qualification letter on the Housing and Council Tax Subsidy claim (HB) was agreed in principle with officers. The key element of the audit involves taking a sample of cases and

undertaking detailed testing. If the initial sample of 10 cases identifies any errors, an additional sample testing of 40 cases is undertaken, for each of the benefit types. In addition a sample of 40 cases is undertaken where auditors have raised issues on previous year's claims.

2.4 A number of failures were identified in the initial sample and additional sample testing was carried out. The additional sample testing was carried out on the following areas:

- Calculation of self employed incomes
- Rent allowance eligible overpayments
- Rent allowance backdating
- Council tax technical overpayments
- Council tax backdating.

2.5 As a result of the additional testing the HB subsidy claim was amended on the backdating – as the testing had covered the entire population in the claim. For the remaining categories there was a qualification letter issued to the Department for Work and Pensions (DWP), as due the nature and frequency of the errors, and the size of the population it was not feasible to carry out a check of the whole population.

2.6 The authority is working with DWP and the audit commission to ensure the HB subsidy claim is fairly stated. Housing Benefit has a complex legislative framework, and the workload in the section has increased significantly recently due to the economic climate. The section has worked and continues to work hard to achieve a 'right first time' approach and provide a prompt service to tenants. The staff are very customer focused and work within a pressurized environment, they are required to record vast volumes of statistical data and always aim for high standards.

3. Changes made following the issue of the qualification letter

4.1 The section has made the following changes following the issue of the qualification letter:

- Additional training for staff on key areas of subsidy, overpayments and calculation of self employed income in particular, in conjunction with current legislative changes
- Additional quality checking of work – including 100% check on backdating expenditure, which now requires the claimant to provide additional documentary evidence to support any application
- Internal sample checking of the grant claim before submission
- Improved record of 'decision making' in cases where discretion has been applied eg calculation of 'reasonable' expenses on a self employed profit and loss calculation
- Officers are working closely with audit commission to undertake an early review of the HB subsidy claim work in preparation for the 2009/10 audit.

Certification of claims and returns - annual report

St Edmundsbury Borough Council

Audit 2008/09

Date

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Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which relate to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from our assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

- 1 St Edmundsbury Borough Council receives significant amounts of funding from various grant-paying departments. The grant-paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In 2008/09, we certified three claims with a total value of £63 million. Of these, we carried out a limited review of one claim and a full review of the remaining two claims. The arrangements for reviewing claims are set out in more detail in paragraph 8 below.
- 3 We amended the national non domestic rates return due to the errors we identified. In addition, we were unable to fully certify the housing benefit and council tax subsidy claim and issued a qualification letter for the matters arising. The issues are set out on pages 5 and 6.
- 4 The fee we charged for grant certification work in 2008/09 was £61,354.

Actions

- 5 The relevant officers of the Council have already agreed the qualification letter on the housing benefit and council tax benefit subsidy claim and have taken action to address the issues for 2009/10. There are no recommendations for Members.

Background

- 6 The Council receives significant amounts of funding for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:
 - an adequate control environment exists for each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 7 We are required by section 28 of the Audit Commission Act 1998 to certify a number of claims and returns for grants or subsidies paid by the government departments and public bodies to St Edmundsbury Borough Council. We charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 9 The key features of the current arrangements are as follows:
 - for claims and returns below £100,000 the Commission does not make certification arrangements;
 - for claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure;
 - for claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong; and
 - for claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

- 10 Our control environment and testing assessment for the national non domestic rates return concluded that we undertake full audit testing in accordance with the certification instruction.
- 11 As the disabled facilities grant fell between £100,000 and £500,000, in line with guidance, we undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure.
- 12 An assessment of the control environment is not undertaken in relation to housing benefit and council tax benefit in line with Audit Commission guidance. This is because the Audit Commission specifies the level of testing to be undertaken to this claim. The work undertaken for the certification of the claim is also integrated with our data quality and audit opinion work.

Specific claims - Housing and council tax benefits (HB)

- 13 We issued a qualification letter to the Department of Work and Pensions on the HB subsidy claim. The factual content of the qualification letter was agreed with officers.
- 14 A key element of the HB audit involves taking an initial sample of benefit cases from the headline cells on the Council's subsidy claim form and undertaking detailed testing on these cases. The initial sample was ten new claim cases and ten changes of circumstance cases for each of the three benefit types applicable to the Council: non-HRA rent rebates, rent allowances and council tax benefit.
- 15 Where testing identifies case failures within the initial sample, and the auditor is unable to conclude that an amended claim will be fairly stated, an additional sample of 40 cases is required to be tested for each type of benefit payment where case failures were identified. In addition, testing of 40 cases is undertaken in cells where auditors have raised issues on the previous year's claim.
- 16 We identified a number of case failures during our initial sample testing. In addition we identified matters arising from our 2007/08 audit which required further follow up work in 2008/09. This resulted in further testing covering five additional samples of 40 cases as follows:

Table 1 Cells where an additional 40 cases were selected for testing

Cell	Description
N/A	self employed income calculations
109	Rent allowance eligible overpayments (current year)

Cell	Description
126	Rent allowance backdates
149	Council tax technical overpayments
161	Council tax benefit backdates

-
- 17** This additional testing identified further case failures. We were able to amend the claim in respect of backdated expenditure (cells 126 and 161) as additional testing had covered the entire population of these cells. For the remaining cells, due to the nature and frequency of the errors identified we were unable to conclude that they were fairly stated therefore the matters were reported in a qualification letter that accompanied the certified grant claim to the Department for Work and Pensions.
- 18** We agreed a number of other amendments to the claim. In addition, our qualification letter also reported other issues which were either cross-cutting across all areas of the claim and/or could not be directly linked to individual cells. Officers are taking action to address the issues raised and will be working closely with us to undertake some early review in preparation for the 2009/10 audit.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns

Claim	Value £	Reliance on control environment	Amended	Qualification letter
Housing and council tax benefits scheme	25,918,969	N/A	Yes	Yes
Disabled facilities	272,000	Yes	No	No
National non-domestic rates return	37,221,736	No	Yes	No

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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