

**L131**



Accountants &  
business advisers

## **Babergh District Council**

# **Grant Claim Certification for the year ended 31 March 2011**

January 2012

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### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Statement of Responsibilities of Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

# 1 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims and returns for the financial year ending 31 March 2011. We undertake certification work as an agent of the Audit Commission, in accordance with the Certification Instructions issued after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.
- 1.2 Government departments rely on the external auditor's certification work to ensure grant claims and returns are fairly stated, that expenditure incurred is in accordance with the terms and conditions agreed or amounts due are properly accounted for.
- 1.3 Grant claims and returns less than £125,000 in value are outside the scope of the certification work. For those claims with a value of between £125,000 and £500,000, we conduct only a limited review of the overall control environment and agree the amounts to underlying records before certifying the claim.
- 1.4 After completion of the tests contained within the Certification Instruction, the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified on the basis of the results of the testing completed. Where a grant claim or return is certified with a qualification letter there is a risk the government department may withhold funding until the qualification matter is resolved.
- 1.5 We would like to thank all the staff involved in the grant claims preparation and audit for all their co-operation.

## 2 Summary of certification

2.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2011.

Claim/return	Value of claim/return £	Qualified/ Unqualified	Number of amendments made to claim/return	Impact of amendments on subsidy £
Housing and council tax benefit subsidy	23,569,395	Qualified	17	(10,904)
Pooling of housing capital receipts	645,888	Unqualified	6	-
Disabled facilities grant	222,000	Unqualified	-	-
National non domestic rates return	19,650,120	Unqualified	1*	-
HRA subsidy (2010/11)	5,033,677	Unqualified	1	-
HRA subsidy base data return (2012/13)	N/A**	Unqualified	21	N/A**
<b>Total for 2010/11</b>	<b>49,121,080</b>	<b>1 qualified</b>	<b>46</b>	<b>(10,904)</b>
<b>Total for 2009/10</b>	<b>48,070,359</b>	<b>1 qualified</b>	<b>11</b>	<b>3,162</b>

\* Administrative amendment made to a date on the return, having no impact on any values entered on the return

\*\* N/A as claim does not give rise to grant payment

### Detailed findings

2.2 Five of the six claims audited were certified with amendment although only one of the six claims audited, the housing and council tax benefit subsidy claim form, was qualified<sup>1</sup> due to non compliance with the Certification Instruction and, therefore, the requirements of the grant paying body. This should be viewed in the context that nationally in 2009/10 231 out of 326 housing and council tax benefit subsidy claims were qualified for various reasons and is therefore not uncommon for such a substantial and complex claim.

2.3 Particular difficulty was experienced with the Housing Revenue Account (HRA) subsidy base data return this year which has significantly increased the total number of amendments made to grant claims and returns (in the prior year the claim was certified without amendment). Whilst there appears to have been a deterioration in the number of amendments made to the claims and returns in 2011, none of these had a material impact on the value of the claim or return.

<sup>1</sup> Claims and returns may be qualified where there is a disagreement or uncertainty, or where the authority has not complied with the schemes terms and conditions.

### ***Pooling of housing capital receipts claim***

- 2.4 The adjustments made to this claim related to misclassification of the mortgage principal repayment and administrative costs. From detailed testing of the administrative cost cells, the agreement of legal costs to source documentation identified that some of the costs did not agree to timesheets multiplied by the hourly rate. All legal costs were recalculated and amended on the claim form in accordance with the Certification Instruction.

### ***Housing and council tax benefit subsidy claim***

- 2.5 From 2007/08 the Audit Commission introduced a mandatory integrated data quality and grants testing approach using a suite of standard spreadsheet workbooks. The approach involved considerably more testing of individual's claim information and transactions than had previously been the case.
- 2.6 Where errors are found within the sample of claims tested, unless these are clearly isolated, mandatory extension testing of an additional 40 cases is required in order to provide a sufficiently large population to extrapolate potential error rates. We are also required to report this information to the Department of Work and Pensions in a qualification letter.
- 2.7 A number of errors were identified during the course of the initial testing. This resulted in six additional blocks of "40+" testing being completed, initially undertaken by the Council's benefits staff and a sample of these cases re-performed by ourselves to confirm the conclusion reached.
- 2.8 Overall, there was not a significant increase in the number of errors and uncertainties identified with the Housing and Council Tax benefit subsidy claim compared to the previous year, especially in light of the size and complexity of the claim.
- 2.9 The following quantifiable errors were identified, although the correction of these errors below resulted in an amendment of £10,904 on the overall claim of £23.5m:

#### **Isolated errors**

- The Certification Instructions require us to review key ratios calculated on the benefits claim and the Council was highlighted as an outlier nationally (i.e not in line with other local authorities in England) for the DWP error cell. We investigated the relevant cell on the claim form and found that all entries were valid apart from one claim which should have been included within eligible error and was adjusted for in the final claim.
- An extended payment had not been correctly classified. Further testing identified no other instances where an extended payment had not been correctly classified and therefore we concluded that the error was isolated and the claim form was adjusted.

- We identified an instance where amounts included in the prior year overpayments cell for HRA rent rebates should have been classified within the current year. The benefit staff were able to run a report from the system to identify all such cases affected and were therefore able to make the amendments to the claim for.
- The uncashed cheques cell value was reduced by £1,297 after testing found that two of the cheques related to the previous financial year and should therefore not be included.
- The underlying detailed case listing reports did not agree to the draft form because some amendments were made to the form after it was submitted to DWP. A number of adjustments were made to the claim form to reflect these.

### Reconciliations

- A general improvement in the overall preparation of the reconciliations was noted this year with only one small difference arising. Although the software supplier's method for reconciliation had been followed, the authority were unable to reconcile benefit granted on the Civica system to benefit paid for council tax benefit. Despite this being a very small sum (£54.61), we were required to report this in a qualification letter to DWP in accordance with the Certification Instruction.

### 40+ testing

- We found 2 instances whereby eligible overpayments (generally where the claimant is at fault and therefore the Council can recover some subsidy) for rent allowances had been misclassified and should have been included within Local Authority error and administrative delay where no subsidy is recoverable. In the additional sample of 40 cases we found one further error. The total value of errors only amounted to £238 and were reported within our qualification letter as required by the Certification Instructions.
- Our initial testing of Council Tax benefit cases identified one instance where childcare costs had been incorrectly entered on the benefit system. The additional testing of 40 cases found a further 2 inaccuracies that resulted in a very small underpayment of benefit.

2.10 The claim was also qualified because the Council operates a policy whereby cases that relate to pre-2006 supporting evidence is not retained on the Civica system. Therefore, in our qualification letter we reported that for 13 out of 107 cases tested, we were unable to support all the figures used in the calculation. No adjustment was made to the subsidy claim in respect of this matter.

## ***HRA subsidy base data return***

- 2.11 A number of errors were identified during the course of the audit as follows:
- The old School House lease was renewed in 2010/11 (for less than 10 years) and therefore was no longer eligible to be included in the return under the certification guidance and an amendment was made to remove it from various cells, both from value cells and the number of dwellings.
  - Annual payments for leased equipment included amounts totalling £100,835 for items post December 1989 and should therefore not have been included in the return in accordance with the guidance, this again affected various cells which were amended.
  - The average weekly formula rent did not agree to the figure published in the 2011/12 Housing Revenue Account subsidy determination and so was amended from £79.52 to £79.13.
  - The Communities and Local Government (CLG) provide a spreadsheet that should be used to calculate entries required in the subsidy return. CLG's spreadsheet had not been used for the preparation of the draft return and the calculations had to be re-performed and the Old School House removed. This resulted in a number of adjustments.
  - Sheltered housing was included in the demolition cells. To comply with the guidance there must be firm plans in place to demolish the buildings within 5 years, however insufficient supporting evidence was provided to support the values in the cells so all were reduced to 0.
- 2.12 Following the changes to the financing of the HRA this return will no longer be required.

### 3 Fees charged

- 3.1 The fees charged for each grant claim/return audited for the year ending 31 March 2011 were as follows:

Claim/return	Fee for the year ended 31 March 2011	Fee for the year ended 31 March 2010
Pooling of housing capital receipts	2,125	2,230
Housing and council tax benefit subsidy	29,825	29,998
Disabled facilities grant	511	448
National non domestic rates return	3,270	3,145
HRA subsidy (2010/11)	1,623	1,866
HRA subsidy base data return (2012/13)	6,891	3,423
Grants Report	750*	745
<b>TOTAL</b>	<b>44,995</b>	<b>41,855</b>

\* Fee is an estimate only and will be finalised upon agreement of the report.

- 3.2 The Grants Report is mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared. The cost of reporting is charged under section 28 of the Audit Commission Act 1998 and is calculated based upon the number of hours taken to draft, agree and finalise the report.

### 4 Conclusions

- 4.1 Improvements continue to be made in relation to the preparation of grant claims and supporting working papers but there is still some scope for further improvement.
- 4.2 A detailed Action Plan to secure improvement to arrangements in future years has been agreed with officers and is included in the Appendix to this report and comments have been made regarding progress made against our previous recommendations.



## Appendix – Progress against prior year recommendations

Recommendations	Priority	Management response	Responsibility	Timing	Progress
<b>General</b>					
1. Review the file to identify the reasons for any differences between the in year reconciliation cells.	Medium	The reconciliation process has now been changed from monthly to weekly which has resulted in us balancing to the penny.	Gary Bullock	01/04/11	Only one very small difference was identified in the current year and therefore this recommendation has been addressed.
2. All benefit types should be processed on Civica to reduce the risk associated with manual calculations.	Medium	Agreed, all benefit types are now processed through Civica.	Gary Bullock	01/04/11	This recommendation has been superseded as the Shared Revenues Partnership has in 2011/12 transferred the data onto Northgate.
3. Review year end payments made and exclude any advance payments that relate solely to 2011/12	High	Agreed, review will take place.	Gary Bullock	01/04/11	No issues were identified in our 31 March 2011 audit and therefore this recommendation has been addressed.

## Appendix – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<b>General</b>					
<ul style="list-style-type: none"> <li>Legal costs for the pooled capital receipts claim did not agree to underlying documentation.</li> </ul>	4. The Council requests all source documentation and checks a sample of costs to ensure they are accurate prior to finalising the claim.	Medium	A proforma document has been provided for legal to complete, sampling will take place prior to completion of the grant claim	Sue Smith	<b>Proforma already in use</b>

**Note:** No recommendations have been made in respect of the Housing subsidy base data return as this return is not required next year. No recommendations have been made in relation to the housing and council tax benefit subsidy claim in recognition that the function has transferred to the Shared Revenues Partnership and the data has been transferred from Civica to Northgate IT system.