

# **BABERGH DISTRICT COUNCIL**

**GRANT CLAIMS AND RETURNS CERTIFICATION**

**Year ended 31 March 2013**

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# INTRODUCTION

## THE PURPOSE OF THIS REPORT

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2013.

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified with the reasons for qualification set out in a letter to the grant paying body. Sample sizes used in the work on the housing and council tax benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

A summary of the fees charged for certification work for the year ended 31 March 2013 is shown to the right.

Appendix I of this report (page 7) shows the Council's progress against the action plan included in our 2011/12 Grant Claims and Returns Certification report (presented to the Overview and Scrutiny (Stewardship) Committee on 19 March 2013).

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our certification work.

FEES	PLANNED SCALE FEE (£)	OUTTURN FEE (£)
Housing and council tax benefit subsidy	18,210	27,865 <sup>1</sup>
National non domestic rates return	2,000	2,630
Pooling of housing capital receipts	1,300	1,703
<b>TOTAL FEES</b>	<b>21,510</b>	<b>32,198</b>

The outturn fee is higher than the planned scale fee for the following reasons:

- It should be noted that the fee charged in the prior year for the housing and council tax benefit subsidy was £54,086 and applying the Audit Commission's 40% reduction, the comparable fee for the current year would have been £32,542. The above fee of £27,865 therefore represents a reduction compared to prior year to reflect the fact that we did not have to audit two systems and the error rates in the current year are lower. The outturn fee for the housing and council tax benefit subsidy certification is higher than the planned fee due to the additional work required following the identification of errors in the initial samples. While the Council completed the detailed testing relating to this work, the audit team required additional time to select the samples, perform sample re-performance of the Council's work and document the issues identified. Identification of errors in the initial and additional samples also required greater involvement of senior members of the team. This resulted in the audit team undertaking more work than planned. Full details of the additional testing undertaken in relation to housing and council tax benefit subsidy are included in the "Detailed Findings" section within this report.
- The outturn fee for the National non domestic rates return is above the planned fee because the claim form was qualified and additional testing was undertaken on empty property relief and write-offs.
- The outturn fee for pooling of housing capital receipts is higher due to the circumstances in 2012/13 compared to the baseline 2010/11 position on which the scale fee has been calculated. The claim form contained an increased number of cells which were subject to audit and amendments were required to the claim form.

<sup>1</sup> A fee variation has been requested from the Audit Commission. This is the proposed variation agreed with management but will not be final until it has been approved by the Audit Commission.

# KEY FINDINGS

## Summary of high level findings

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing and council tax benefit subsidy*	25,628,044	Yes	No	N/A
National non-domestic rates return	21,183,856	Yes	Yes	£369,524
Pooled housing capital receipts	790,806	No	Yes	-**

\*A number of errors were identified during the audit of the housing and council tax benefit subsidy audit, some of these errors were required to be extrapolated (estimated) in accordance with the Department of Work and Pension's (DWP) reporting methodology.

\*\*The amendments did not affect the value of the claim.

## Detailed Findings

Below are details of each grant claim and return subject to certification by us for the financial year to 31 March 2013. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan in respect of these matters is included at Appendix II of this report on page 10.

Housing and council tax benefit subsidy	Findings and impact on claim
<p>Local authorities responsible for managing housing benefit and council tax benefit schemes 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 to central government on form MPF720A (the subsidy claim), which is subject to certification.</p> <p>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 the subsidy claim. The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions (DWP). We have no discretion over how this methodology is applied.</p>	<p><b><u>Missing evidence</u></b></p> <p>The Council has a policy whereby information prior to 2006 is not scanned into the benefits system (Northgate) and therefore the original benefits application form could not be located for 6 out of the initial sample of 64 claimants. This matter was reported to DWP within our qualification letter, however, the Council's policy has previously been accepted and no further action has been taken.</p> <p><b><u>Initial testing of benefit claims</u></b></p> <p>The methodology prescribed by the Audit Commission and DWP requires us to complete initial testing on 20 benefit cases from each type of benefit paid by the Council, as the Council has claimants in all four benefit types, our initial sample was for 64 cases (our sample for non-HRA rent rebates was only 4 as the total population was 17 claimants).</p> <p>In this initial sample of 64 cases, we identified a number of errors. These errors arose due to the following:</p> <ul style="list-style-type: none"><li>• 1 rent allowance case where the current year overpayment had been incorrectly classified as eligible (i.e claimant error) when it should have been classified as local authority error</li></ul>

- 1 rent allowance case where the prior year overpayment had been incorrectly classified as eligible when it should have been classified as local authority error
- 1 case where the ineligible services were incorrectly applied to the rent figure which resulted in an overpayment of benefit
- 1 case where the Disability Living Allowance had been incorrectly applied, however there was no impact on the amount of benefit paid
- 1 case where the council tax benefit overpayment had been incorrectly classified.

We also undertook some additional testing on issues that arose in the prior year and identified the following issues:

- 9 errors in relation to the calculation of self employed income that resulted in underpayment of benefit, overpayment of benefit or no impact on the benefit awarded
- 1 case where the employment and support allowance (ESA) was incorrectly calculated which resulted in an over payment benefit.

The extrapolated (estimated) error in relation to the overpayment matter is £1,476.

When errors are identified, the prescribed methodology requires us to undertake additional testing, known as “40+” testing (an additional sample of 40 cases are selected from the cell where the error originated). There are three exceptions to this requirement:

- if the error can be clearly shown to be isolated, no further testing is required
- If the error only results in an underpayment of benefit, no further testing is required
- If the population is small and therefore 100% can be tested and the claim form amended.

The issue raised in relation to the ESA error above relates to the single case tested therefore an overpayment has been recorded in 2013/14 as this was the only case affected by this issue.

For the remaining errors identified in the initial sample, additional testing was undertaken as described below.

#### Current year overpayment classification - rent allowances

A further 3 errors were identified in our additional testing where the error was classified as eligible (claimant error) which attract subsidy and should have been classified as local authority error, which does not attract any subsidy and is therefore a loss to the Council. The extrapolated (estimated) impact of the combined errors was £13,328.

**Prior year overpayment classification - rent allowances**

The additional sample tested identified the following:

- a further 8 cases where the overpayment had been incorrectly classified as eligible (claimant error) and should have been classified as local authority error
- 1 case where the overpayment had been raised in error and therefore should not have been included in the overpayment cell.

The extrapolated (estimated) error was £11,077.

**Ineligible services incorrectly applied to the rent figure**

Testing of the additional sample identified the following:

- 1 case where ineligible services had been incorrectly included within the rent figure resulting in an underpayment of benefit
- 1 case where the rent figure was incorrect resulting in an underpayment of benefit
- 1 case where ineligible services were incorrectly applied to the rent figure resulting in an overpayment of benefit
- 1 case where there was not an up to date rent increase letter, the supporting evidence related to 2011 rent charge.

The extrapolated (estimated) error was an overstatement of expenditure of £5,678.

**Overpayment classification - Council tax benefit**

Testing of the additional sample identified the following:

- 1 case where the overpayment should not have been raised
- 14 cases where the overpayment should not have been classified as eligible (claimant error).

The extrapolated (estimated) error is £32,082.

**Modified schemes**

The certification instruction issued by the Audit Commission also require testing of modified schemes. These involve benefit claims where the Council makes a decision to disregard all income associated with war pension amounts (as opposed to just the statutory disregards) for the purposes of calculating benefit entitlement. Testing of modified schemes identified 1 case where self employed income had been miscalculated resulting in an underpayment of benefit.

## National non-domestic rates return

The Council is a billing authority and as such is required, on an annual basis, to calculate its contribution to the centrally-administered non-domestic rates pool. The value of the contribution must be notified to the Secretary of State. This is done on form NNDR3, which is subject to certification.

## Findings and impact on return

Our certification work on form NNDR3 did not identify any errors which the Council had not already identified and adjusted. The revised claim was provided at the start of the audit that included the amended values, which resulted in the £369,524 adjustment referred to on page 2, to remove the additional amounts paid by businesses not receiving small business rate relief in accordance with the claim guidance.

The claim form was also amended to correct the date of the latest information used in completing the claim form.

The claim form was qualified in respect of the following matters:

- the breakdown of the claims to support the values reported in the claim form differed by £5.49 and £114.09 in respect of small business rate relief because the detailed reports were not produced at the same time as the claim form.
- 13 out of 21 properties tested for empty property relief had not been inspected during the year to confirm they were empty. Of the 13, only 2 had no other evidence to confirm they were empty on the file.
- 1 instance where a £3,716.08 write-off could not be confirmed as the form had not been retained
- 1 case where a £4,371.09 write-off had not been authorised in accordance with the Council's scheme of delegation
- 2 instances where the Council's write-offs were incorrectly authorised by Ipswich Borough Council due to an administrative error at the Shared Revenues Partnership.

Form NNDR3 was, therefore, submitted amended and subject to a qualification letter.

## Pooling of housing capital receipts

Local authorities are required to pay a portion of any housing capital receipt 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 information in these returns is subject to certification on an annual basis.

## Findings and impact on return

Our certification work on the information submitted to the Secretary of State in relation to the housing capital receipts received by the Council during 2012/13 identified that the 1999 valuations for Right To Buy properties, entered into the valuation spread sheets, were incorrect. Instead of the actual valuations recorded in Capita, the average value for the street was used. This has led to an error in the spread sheet calculating the Quarterly Attributable debt for each quarter and therefore these cells required amendment prior to certification.

The value of housing capital receipts reported by the Council was therefore submitted amended however, it was not subject to a qualification letter.



# APPENDICES

## APPENDIX I: STATUS OF 2011/12 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
<b>HOUSING AND COUNCIL TAX BENEFIT SUBSIDY</b>					
<p>A training course to be undertaken to inform all Shared Revenue Partnership staff how to calculate self employed income.</p> <p>Sample checks should then be undertaken on claimants with self employed income to ensure the calculation is correct.</p>	High	Agreed - Training has been undertaken and self-employed cases are included in the 5% checking regime.	SRP QC & Subsidy Team Leader	See management response	Training had been undertaken, however, partly because of the timing of the recommendation, errors were still identified with the calculations in the 2012/13 subsidy audit. The SRP should consider whether additional training is required.
The SRP should ensure all required reports are run and cleared at the year end and Northgate's methodology is used to reconcile the claim.	High	Agreed - Northgate reconciliation has been used throughout the current year and all reports will be run at the appropriate time.	SRP QC & Subsidy Team Leader	See management response	All reports requested were run at the year end, no issues arising in respect of this recommendation.
Spot checks should be completed on a sample of new claimants and change in circumstances to ensure they have been correctly entered on the benefits system.	High	Agreed - All new claims & change of circumstances are included in the 5% checking regime.	SRP QC & Subsidy Team Leader	See management response	Improved accuracy on data input noted in 2012/13 with only a small number of errors reported compared to prior year.
As above. Part of the spot check should ensure that all supporting evidence has been obtained and agrees to the values reported on the benefit system.	High	Agreed - As above, this check is also part of the 5% checking regime.	SRP QC & Subsidy Team Leader	See management response	As above, the volume of errors in the current year identified in relation to missing evidence was low compared to prior year demonstrating improvement.
Spot checks should be undertaken on a periodic basis to ensure the overpayment has been correctly classified and correctly calculated.	Medium	Agreed - Correct classification of subsidy codes is an ongoing process during year.	SRP QC & Subsidy Team Leader	See management response	A number of overpayment errors were identified during the 2012/13 subsidy audit and therefore a further recommendation has been raised.

## APPENDIX II: 2012/13 ACTION PLAN

HOUSING AND COUNCIL TAX BENEFIT SUBSIDY						
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	
<p>Overpayment classification errors have been identified in a number of cases and has been previously raised as an issue in our prior year report.</p> <p>Whilst we recognise that the timing of our recommendations means that the effect of any measures taken by the Council are unlikely to be reflected in the following year's subsidy claim, we would expect improvements to have been made given the recurrence of the issue.</p>	<p>Undertake a fundamental review of the processes the Council has in place to assure itself that overpayments are being classified correctly for subsidy purposes. This should include sample testing of an appropriate number of overpayments from each category of benefit during the year to verify the accuracy of classification.</p>	High	<p>Agreed. Further training has been provided and sampling of overpayment classification is undertaken</p>	SRP Business Support Manager		
<p>Ineligible services were incorrectly applied in a number of rent allowances cases resulting in underpayments and overpayment depending on the claim and also 1 claim did not have a current rent increase letter.</p>	<p>Spot check a sample of rent figures to ensure they have been correctly calculated and that there is supporting evidence for the current rent figure being applied.</p>	High	<p>Agreed. In part this was due to incomplete historic records or the ability to locate those records. Within the current electronic filing system, we have moved to storing rent details against the claim and the Landlord so supporting evidence should be available for inspection in future.</p>	SRP Business Support Manager		
<p>We have again identified a number of errors in relation to the calculation of self-employed income. Whilst the timing of the previous recommendation meant there was limited time to impact on the 2012/13 claim, the SRP should consider whether any further training needs have been identified following completion of the 2012/13 subsidy audit.</p>	<p>Further sample checks should be undertaken on claimants with self employed income to ensure the calculation is correct.</p>	High	<p>Agreed.</p> <p>A new calculation form has been introduced, training provided as required and a review of existing claims undertaken.</p> <p>Further sampling will be undertaken to ensure consistency of calculation and in application of regulations.</p>	SRP Benefits Manager	SRP Business Support Manager	

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>NATIONAL NON DOMESTIC RATES RETURN</b>					
There were unreconciled differences between the values reported in the claim form and the detailed transaction listings as the reports were not all run at the time the claim form was compiled.	Ensure the detailed transaction reports for all cells within the claim form are run at the year end.	Medium	Agreed, required reports will be scheduled as part of the year end process	Revenues Manager	
There were a number of empty properties tested that had not been visited and a small number of properties where no evidence was identified to confirm the property was empty.	Review the procedures and arrangements surrounding empty property relief. Spot check a sample of properties to ensure they have been visited or canvassed recently and that there is sufficient evidence to support the relief.	High	Agreed, this has been reviewed and inspections have been undertaken. Rural Reliefs have been reviewed.	Revenues Manager	
A number of errors were identified during testing of write-offs.	Ensure write-offs are authorised in accordance with the Council's scheme of delegation. Ensure evidence to support all write-offs is retained. Ensure the write-off has been approved by the correct member of the SRP.	Medium	Write-offs are reconciled on a monthly basis and write-offs sheets kept.	Revenues Manager	

**POOLING OF HOUSING CAPITAL RECEIPTS**

The 1999 valuations for Right To Buy properties, entered into the valuation spread sheets, were incorrect. Instead of the actual valuations recorded in Capita, the average value for the street was used. This has led to an error in the spread sheet calculating the Quarterly Attributable debt for each quarter.	The Council should ensure the correct values are recorded in accordance with the return guidance.	Medium	Agreed	Senior Financial Services Officer	
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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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