

Certification of claims and returns - annual report

Central Bedfordshire Council

Audit 2009/10

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Summary

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 attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

1 Central Bedfordshire Council (the Council) receives significant 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 show to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team certified nine claims with a total value of some £175 million. Of these, we carried out a limited review of two claims and a full review of seven claims. (Paragraph 16 explains the difference.) We amended five claims requiring full certification for errors and issued a qualification letter to the grant-paying body for three claims. Appendix 1 sets out a full summary.

3 For grant certification work in 2009/10 we have charged a fee of £83,258. Of this total £58,229 relates to the audit of the 2009/10 Central Bedfordshire Housing Benefit claim and the follow up of queries raised by the Department of Work and Pensions (DWP) about the 2008/09 South Bedfordshire District Council and Mid Bedfordshire District Council claims. I estimate that additional fees of £6000 are likely to be charged in respect of further work on the 2008/09 South Bedfordshire and the 2009/10 Central Bedfordshire Housing Benefit claims. However, I expect that these additional fees will be offset by a decrease in the estimated fee for certification of 2010/11 claims.

Significant findings

4 The main area of grant certification work in terms of time and fee is the audit of the Housing and Council Tax benefit claim. 2009/10 was the first year that Central Bedfordshire, as a new unitary authority, was responsible for submitting a Housing and Council Tax Benefit claim. Housing benefit data from the two legacy authorities (Mid Bedfordshire and South Bedfordshire) had to be transferred to the new Central Bedfordshire system in 2009/10. As a result there were significant delays in completing the audit of this claim. The claim should have been certified by 30 November 2010, but in recognition of the issues faced by the Council the DWP granted an extension to 14 January 2011. The claim was certified by this date but was subject to an extensive qualification letter.

5 The number of errors found as part of our testing of the Housing and Council Tax Benefit claim, and the additional testing carried out by the Council, suggest that staff training and quality control are key areas to be addressed. These areas will be considered as part of the Council's Recovery Board for the Customer and Shared Service directorate, which includes Revenues and Benefits. It is important that these issues are addressed as soon as possible to ensure that training and new quality control processes are in place for 2011/12.

Certification fees

6 In my indicative fee letter for the 2009/10 audit, issued in May 2009, I estimated a total fee of £83,400 for 2009/10 grant certification work. As noted above the fees charged to date total £83,258.

7 The fee charged includes £58,229 for the audit of the Housing and Council Tax Benefit claim. The fee reflects the volume of work required to carry out the audit and as noted above this is reflected in the extensive qualification letter issued to the DWP in January 2011. This fee also includes £5,796 for responding to queries raised by the DWP on the issues reported in the 2008/09 qualification letters for South Bedfordshire and Mid Bedfordshire claims.

8 The DWP has recently asked the Council to carry out more work on the South Bedfordshire 2008/09 claim. The DWP require me, as the auditor, to review this work and report back to them on the findings. I estimate that this will result in additional fees of some £2000. It is also likely that the DWP will require further work by the Council and by me, as auditor, in response to the issues raised in the qualification letter on the 2009/10 Central Bedfordshire claim. Until the DWP confirm their requirements for further work it is difficult to be precise about the impact, but I would estimate that the fee for this would be some £4000.

9 My indicative fee letter for 2010/11 issued in March 2010 estimated that the fee for auditing 2010/11 claims would be £100,562. This increase, from the 2009/10 estimate, reflected the significant issues arising from the audit of the 2008/09 legacy authorities' housing benefits claims. I now expect that the 2010/11 fee will be lower than the figure in my indicative fee letter, which will offset the additional fees noted in paragraph 8. This reduction is however dependent on the Council addressing the problems that have led to the qualifications of the 2009/10 Central Bedfordshire claim and 2008/09 South Bedfordshire and Mid Bedfordshire District Council claims.

Actions

10 Appendix 2 summarises my recommendations to improve arrangements for the management of claims and returns. The relevant officers of the Council have agreed these recommendations

Background

11 The Council receives significant funding 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 over each claim and return; and
- ensuring that the Council can show that it has met the conditions attached to each claim.

12 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. I 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.

13 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

14 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 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.
- 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

15 Where the value of the claim or return is over the current £500,000 threshold, we assess the control environment for the preparation of the claim or return and conclude as to whether reliance can be placed on it before detailed certification work is carried out. All of the claims submitted for audit by the Council were above the £500,000 threshold.

16 In assessing the control environment we assess the following; the degree of risk attached to the claim or return including the volume and type of transactions undertaken, the complexity of the scheme itself, the method of compilation of the claim or return including any changes from the previous period, cumulative auditor knowledge and the findings from predictive analytical review. If we conclude that we are not able to place reliance on the control environment we then consider the extent and adequacy of other work by internal audit in relation to the claim or return and assess whether the work is directly relevant and whether reliance can be placed upon it.

17 We were able to rely on the control environment and therefore carried out only a limited review for two of the nine claims above the £500,000 threshold audited in 2009/10. The value of the Sure Start claim was above our materiality level for opinion purposes and therefore detailed testing was carried out. For the remaining six claims where we could not rely on the control environment this was largely because of the inherent complexity of the claims and issues from the audit of these claims at the predecessor authorities. For those six claims we carried out detailed testing on the claims based on our assessment of risk and in accordance with the certification instruction agreed with the grant paying department.

Specific claims

18 For those claims with a qualification letter the key issues reported have been set out in the following paragraphs.

Teachers Pensions

19 The Teachers Pension Scheme is a contributory pension scheme run by Teachers Pensions on behalf of the Department for Education (DfE). Our qualification letter on the Teachers Pensions return reported on a number of areas where the guidance notes provided by the DfE had not been followed. In particular:

- Non-pensionable items should be excluded from the return, but the Council was unable to confirm the arrangements it had in place to ensure that non-pensionable items had been excluded from information provided by schools who use a payroll provider other than SERCO;
- The total pensionable pay of the members of the scheme for the year had been calculated by 'grossing up' the contributions deducted from teachers salaries. The guidance notes to the claim state that this is not acceptable and that the figure should have been taken direct from the authority's and other providers payroll records.
- Additional pension and additional contributions could not be categorised between contributions made under the new scheme (elections made after 1 January 2007) and additional contributions made under the previous scheme.
- There were no entries in the return for amounts deducted in respect of backdated elected further employment elections (these relate to teachers who have taken age, premature or actuarially reduced benefits retirement, who at a later date return to work and elect for this full or part time re-employment to be pensionable) or TR 22 elections from teachers whose records show an extant election to pay contributions on a former higher salary. The Council's payroll system is unable to provide this information and therefore we were unable to confirm that there should be no entries in the return.

Recommendation

R1 Complete all claims in accordance with the relevant guidelines set by the grant paying department.

Housing benefits

20 In 2009/10 housing benefit data was transferred from the two legacy authorities to the new Central Bedfordshire system. As a result there were significant delays in completing the audit of this claim. The claim should have been certified by 30 November 2010, but in recognition of the issues faced by the new authority the DWP granted an extension to 14 January 2011. The claim was certified by this date but was subject to an extensive qualification letter.

21 We have also had to carry out more work on the 2008/09 South Bedfordshire housing benefit claim in response to additional queries raised by the DWP on the qualifications we reported to them in respect of this claim. We have also had to carry out additional work on the 2008/09 Mid Bedfordshire claim.

22 The approach for the audit of housing benefits claims is agreed with the DWP. We are required to test an initial sample of 20 cases each from the following headline cells:

- non Housing Revenue Account rent rebate cases,
- rent rebates,
- rent allowances: and
- Council Tax benefit cases.

23 Testing of this initial sample of 80 cases did not allow us to conclude that the claim was fairly stated and more testing was required for 20 cells. As agreed with the DWP, an additional random sample of 40 cases, for each cell, was selected by us for the Council to examine, thus giving a total of 800 cases to test. We review the findings and re-perform on a sample basis. The Council had still to complete the additional testing on four of these 20 cells by the DWP deadline of 14 January 2011. This was reported in our qualification letter and the DWP will require us to complete further work to reach an opinion on these cells.

24 In my qualification letter I reported that the Council had continued to misclassify a number of overpayments, therefore claiming the wrong amount of subsidy, and had incorrectly assessed the income of some claimants, leading to an under or overpayment of benefit. The errors identified this year are consistent with findings in previous years and reported in the South Bedfordshire and Mid Bedfordshire qualification letters of 2008/09.

25 The number of errors found as part of our testing and the additional testing carried out by the Council suggest that staff training and quality control are key areas to be addressed. These areas are being considered as part of the Recovery Board for the Customer and Shared Service directorate, which include Revenues and Benefits. It is unlikely that significant improvements will have been made and in place for the whole of the 2010/11 financial year and therefore we anticipate a similar level of testing will be required for the 2010/11 claim. It is important that these issues are addressed as soon as possible to ensure that training and new quality control processes are in place for 2011/12.

Recommendation

R2 Ensure that recommendations arising from the Recovery Board's review of training and quality control in Revenues and Benefits are implemented as soon as practicable to have an impact on the 2011/12 Housing Benefits claim.

Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns above £500,000**

Claim	Value £	Adequate control environment	Amended	Qualification letter
Sure Start	6,804,569	The value of this claim was above our materiality level for opinion purposes and therefore detailed testing was carried out.	No	No
Pooling of capital receipts (CFB06)	817,146	No -issues from predecessor authority, new officer compiling the claim.	Yes	No
Housing Subsidy Base data return (HOU2) (housing subsidy entitlement for 11/12 will be based on this return)	n/a	No -issues fro predecessor authority.	Yes	Yes (1)
NNDR 3	74,157,212	no - complex claim and issues from predecessor authorities.	Yes	No
Teachers Pensions	16,514,825	no - complex claim and issues from predecessor authority.	Yes	Yes
Housing benefits	66,510,008	no - complex claim and issues from predecessor authorities.	Yes	Yes
Economic Participation Programme	1,075,583	No - new claim	No	No

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing Subsidy Final Claim (HOU1)	8,575,231	Yes	No	n/a
Disabled Facilities Grant (HOU 21)	593,000	Yes	No	No

Note (1): Reported to CLG about an inconsistency between the CLG's guidance on completing the form and the Audit Commission's Certification Instructions.

There were no claims submitted for audit with a value between £125,000 and £500,000.

Appendix 2 Action Plan

Recommendations

Recommendation 1

Complete all claims in accordance with the relevant guidelines set by the grant paying department.

Responsibility

Priority

Date

Comments

Recommendation 2

Ensure that recommendations arising from the Customer and Shared Services Recovery Board's review of training and quality control in Revenues and Benefits are implemented as soon as practicable to have an impact on the 2011/12 Housing Benefits claim.

Responsibility

Priority

Date

Comments

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