

Certification of claims and returns - annual report

Central Bedfordshire 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 grant-paying bodies and are required to 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. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

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 and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed 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 undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

I audited nine claims and returns in 2010/11 with a total value of £175,505 million. Five claims were amended to correct errors prior to certification. For three claims (Housing Benefits, Teachers Pensions and Sure Start) I was unable to fully certify the claim and issued a qualification letter to the grant paying body. A qualification letter is issued where there is a disagreement or uncertainty either over the content of the claim, or whether the scheme terms and conditions have not been complied with.

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

Number of claims and returns certified	2010/11	2009/10
Total value of claims and returns certified	£175,505	£175,047
Total number of claims and returns certified	9	9
Number of claims and returns amended due to errors	5	5
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	3	3
Total cost of certification work (to date)	£84,246	£91,150

I have charged the Authority a fee of £84,246 for grant certification work in 2010/11. I expect to have to carry out further work on the 2010/11 Housing and Council Tax benefits claim and I estimate that this additional work will cost £4,000, bringing the total charge for 2010/11 to £88,246.

The main area of grant certification work in terms of time and fee is the audit of the Housing and Council Tax benefit claim. Due to the number of errors found in previous years a large volume of additional testing is required on this on this claim. In addition to my testing of 20 cases in each of the three headline cells, your officers carry out additional testing, of 40 cases ('40+ testing') for each cell where errors were found last year. This year there were 21 cells on which 40+ testing was required.

This year the Housing and Council Tax Benefits claim was certified by the due date of 30 November 2011, a significant improvement on the 2009/10 claim which was not certified until 12 January 2011. This improvement was achieved through good planning and a positive working relationship with your officers, which ensured that the testing carried out by the Authority as completed in good time for my team to re-perform the work.

While there have been improvements in the process to ensure that this claim is signed off on a timely basis there are still a large number of errors being found in this claim. As in previous years a number of the errors reported were in respect of misclassifications of over payments there were also a number of cases where benefit had been incorrectly assessed. As the 2009/10 claim was not certified until 12 January 2010, the internal controls introduced to address previous issues have had minimal impact in 2010/11 claim and similar errors have occurred. Staff training and quality control continue to be key areas which must be addressed to reduce the level of errors in this claim.

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.

For claims and returns over £500,000 I planned and performed 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 undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns above £500,000 in 2010/11 are set out in table 2 below.

Table 2: **Claims and returns above £500,000**

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	70,129	The Housing and Council Tax benefit claim is inherently high risk and complex. For this reason I am required to carry out detailed testing specified by the Audit Commission and the Department for Work and Pensions (DWP).	-£343,670	Yes

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Pooling of housing capital receipts	621	Yes	nil	No
Housing Revenue Account (HRA) subsidy	8,810	Yes	nil	No
Housing finance base data return	n/a	Additional testing carried out as this return to inform HRA self financing settlement determination.	Two amendments made	No
National non-domestic rates return	69,057	No – complex claim, the value of which was above my materiality level for opinion purposes and therefore detailed testing was carried out.	-£881,999	No
Teachers' pensions return	16,812	No	+ £177	Yes
Sure start, early years and childcare grant and aiming high for disabled children grant	9,124	No – the value of this claim was above my materiality level for opinion purposes and therefore detailed testing was carried out.	-£25,842	Yes
Disabled facilities	588	Additional testing carried out to update my risk assessment.	nil	No

Housing and Council Tax benefit Scheme

The Housing and Council Tax benefit claim is inherently high risk and complex. For this reason I am required to carry out detailed testing specified by the Audit Commission and the DWP. I am required to test a sample of cases to check that benefits have been awarded in accordance with the benefit regulations and to check that subsidy has been properly claimed. Any errors found have a significant impact on the extent of testing required under certification requirements. As a result of errors found in previous years 40+ testing had to be carried out on 21 cells, giving a total of 840 cases to be

tested. This additional testing was carried out by your officers. I am required to re-perform a sample of these cases to confirm that I agree with the findings. I carried out testing of a further 60 cases, 20 in each of the three headline cells, Rent Rebates, Rent Allowances and Council Tax.

This year the claim was certified by the due date of 30 November 2011, a significant improvement on the 2009/10 claim which was not certified until 12 January 2011. This year the 40+ testing was completed in time for me to re perform the work, conclude on the findings and include in my qualification letter to the DWP.

Where the results of the testing allowed me to conclude that an adjustment to a cell would result in it being fairly stated, the claim was amended. The claim was amended by £343,670. Of the total £56,753 related to an amendment made as a result of an update from the software provider, Civica, which was run after the first claim was submitted to DWP.

In all other cases, I reported my results in a qualification letter. I am required to report the nature of the errors found and extrapolate the value across the cell population. The DWP then decides whether to ask the Authority to carry out further work to quantify the error or to claw back the benefit paid. The qualification letter reported that errors had been found in 18 cells in the claim. The most common errors reported were misclassifications of overpayments and cases where the Authority had used incorrect income assessments to calculate benefit. I expect the DWP to ask both the Authority and I to carry out additional work in respect of some of the issues raised.

As noted above the 2009/10 was not certified until 12 January 2010, with the Authority having been granted an extension by DWP. As a result, the internal controls introduced to address previous issues have had minimal impact in 2010/11 claim and similar errors have occurred. Staff training and quality control continue to be key areas which must be addressed to reduce the level of errors in this claim.

Recommendation

R1 Continue to prioritise staff training and quality control in the Revenues and Benefits team to reduce the number of errors in the Housing Benefit and Council Tax benefit claim.

Sure Start

Sure Start, Early Years and Childcare grant supports the delivery of the government's Ten-Year Strategy for Childcare. The Department for Education allocates funding to authorities and monitors the use of the grant.

The claim was amended to exclude expenditure of £25,842. The claim had incorrectly included an accrual for two vans for which the order had been cancelled.

My qualification letter reported that one of the items of expenditure that I tested was £60,000 used to fund part of the costs of the Council's Area Special Educational Needs Coordinators (Sencos). This contribution was an estimate made without any supporting calculations of hours actually spent by Area Sencos on Sure Start activities. Therefore I had no basis on which to assess whether this contribution was reasonable. I have not received any further communication from the grant paying department on the issue reported.

Recommendation

R2 Strengthen the arrangements in place to ensure that adequate supporting documentation is retained to support the expenditure included in grant claims.

Teachers Pensions

The Teachers Pensions Scheme is a contributory pension scheme administered by the Teachers Pensions Agency (TPA) on behalf of the Department for Education. The Teachers Pensions Regulations 2010 require employers to deduct contributions from teachers' salaries and remit them to TPA together with the employers' contributions. Form TR17, the return that I audit, is an annual summary statement showing teachers' pension contributions deducted and remitted in the year.

The audit of this claim took significantly longer than in previous years. A lot of the time charged was spent on agreeing the figures in the return to supporting payroll records.

My work on the audit of the claim found that for one of the 12 monthly payments made by the Council to the TPA, the authorising officers had approved an incorrect payment. The CHAPS payment form, which was authorised, did not agree to the supporting payroll reports. The amount was not material (£5,547) but the key issue is that the control was not operating. The claim was amended and this issue was reported in my Annual Governance Report to the Audit Committee in September 2011.

The procedures in relation to completion of the Teachers' Pension contributions claim are subject to ongoing review between all parties concerned. The cause of the error has been identified and measures agreed to avoid further recurrences.

My qualification letter to TPA also reported that there were no arrangements in place to verify the adequacy of the data in the payroll reports provided by schools that do not use the Authority's payroll system. The certification instructions agreed with TPA requires that where any part of the payroll administration has been outsourced authorities should have adequate arrangements in place to satisfy themselves that contributions have been correctly deducted and remitted to TPA.

As reported last year the Authority's payroll system does not enable separate disclosure, as required by the TPA, of some elements of the contributions deducted from teachers salaries (additional contributions and elective. This has been reported in previous years I am not aware that TPA has requested any further information from the Authority in respect of this issue.

Recommendations

- R3** Ensure that authorising officers are reminded of the importance of agreeing CHAPS payments to supporting payroll reports prior to authorisation.
 - R4** Introduce arrangements to confirm the adequacy of the data provided for the Teachers Pensions return by schools that do not use the Authority's payroll system. In particular to confirm that contributions have been correctly deducted and remitted to Teachers Pensions.
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NNDR

Authorities contribute to and subsequently receive payments from a national non-domestic rates pool. The Department for Communities and Local Government (CLG) makes an interim settlement for the year which is based on a calculations provided by the Authority. CLG then uses the auditor certified NNDR 3 claim, the Authority's final calculation of its contribution to the pool, to make any final settlement.

Two amendments were made to this claim which reduced the Authority's contribution to the pool by £881,999. The amendments were due to the following two errors made in compiling the claim:

- a reduction of £881,819 due to a correction to the bad debt provision used in the losses in collection calculation; and
- a reduction of £180 due to the correction of a transposition error.

Housing Finance Base Data Return

As part of the Localism Bill a self financing Housing Revenue Account (HRA) will replace the HRA subsidy system from 1 April 2012. CLG will have used the information contained in the audited base data return to issue to Central Bedfordshire with a draft determinations in November 2011 setting out how much the Authority will be required to pay to CLG in a one off settlement.

Two amendments were made to the Housing Base Data Return, as follows.

- The number of tenancies terminated during 2010/11, reported as 381, was overstated by 5. This was due to LIBRA, the housing rents system, including 'new properties' in the termination report in error.
- The value of properties brought back in to the HRA during 2010/11 was understated by £68,912, due to the omission of one property.

Recommendation

R5 Strengthen the arrangements in place to review claims prior to submission for audit to ensure that they have been completed correctly and agree to supporting documentation.

For claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure. One claim fell in this category in 2010/11, the Economic Participation Programme End of Year Statement of Grant Usage to 31 March 2011. This return was certified without amendment or a qualification letter.

Table 3: **Claims between £125,000 and £500,000**

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Qualification letter
Single programme	364	nil	No

Summary of progress on previous recommendations

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

Table 4: 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
Complete all claims in accordance with the relevant guidelines set by the grant paying department.	H	1 April 2012	John Hays Head of Financial Control	Partially implemented	
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.	H	Completed	Gary Muskett Head of Revenues	Implemented	

Summary of recommendations

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

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
Continue to prioritise staff training and quality control in the Revenues and Benefits team to reduce the number of errors in the Housing Benefit and Council Tax benefit claim.	High	All Benefits staff receive training and supporting training documents in respect of specific areas of claim processing. There are extensive internal quality control measures in place to address the issues arising from the 2010/11 claim.	Already completed	Gary Muskett Head of Revenues
Strengthen the arrangements in place to ensure that adequate supporting documentation is retained to support the expenditure included in grant claims.	High	Financial processes have been amended to include a requirement to ask specifically if any of the figures provided for grant claim submission are estimates, and if so on what basis the estimate is made. Financial Control will be responsible for ensuring that any estimated figures have a reasonable basis for calculation.	1/4/2012	John Hays Head of Financial Control

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
Ensure that authorising officers are reminded of the importance of agreeing CHAPS payments to supporting payroll reports prior to authorisation.	High	A reminder that it is essential that documentation which fully supports the amount of funds requested for any CHAPS payment is essential before authorisation is to be sent to all CHAPS authorisers.	1/4/2012	John Hays Head of Financial Control
Introduce arrangements to confirm the adequacy of the data provided for the Teachers Pensions return by schools that do not use the Authority's payroll system. In particular to confirm that contributions have been correctly deducted and remitted to Teachers Pensions.	High	A monthly reconciliation has been introduced to ensure the adequacy of data provided, conducted by Financial Control.	Already completed	John Hays Head of Financial Control
Strengthen the arrangements in place to review claims prior to submission for audit to ensure that they have been completed correctly and agree to supporting documentation.	Medium	There is considerable effort put into staff training around grant claims and there are significant checks in place to review claims at various levels in the organisation prior to submission to grant authorities and subsequently for audit. These arrangements have been refined and improved considerably over the past two years, which has been reflected in the improvement in the time taken to certify the claims, particularly the Housing and Council Tax benefit claim.	Already completed	John Hays Head of Financial Control Gary Muskett Head of Revenues

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 6: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	65751	68,640	
Pooling of housing capital receipts	901	1528	Additional testing carried out in 2009/10 to update my risk assessment.
HRA subsidy	1091	966	n/a
Housing finance base data return	2751	4890	2009/10 claim amended and qualification letter issued. 2010/11 claim amended but no qualification.
National non-domestic rates return	3477	3700	n/a
Teachers' pensions return	8283	3792	The audit of this claim took significantly longer than in previous years. A lot of the time charged was spent on agreeing the figures in the return to supporting payroll records.
Sure start, early years and childcare grant and aiming high for disabled children grant	3545	3028	Amended and qualification letter issued in 2010/11, none in 2009/10.

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Disabled facilities	1545	792	Additional testing carried out in 2010/11 to update my risk assessment.
Single programme	901	3941	2009/10 was the first year of this claim therefore additional testing carried out to assess control environment. Value of claim in 2009/10 was £1,076,000; fell to £364,000 in 2010/11.
Total	88,245	91,150	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.

