

# Certification of claims and returns - annual report

**Cherwell District Council**

Audit 2008/09

February 2010

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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 attach to these grants.**

**This report summarises the findings from the certification of 2008/09 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.**

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## Certification of claims

- 1 Cherwell District Council receives £32m 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 addition, the Council collects business rates to pay into the national pool, from which the Council then receives grant funding. The amount payable to the pool of £62m is also subject to certification.
- 3 In 2008/09, my audit team certified three claims with a total value of £94 million. Of these, we carried out a limited review of three claims and a full review of one claim. (Paragraph 10 explains the difference.) No amendments were required to the claims subject to limited review. For the claim requiring full certification, the Council made a number of adjustments and we issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

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## Significant findings

- 4 As a result of our work we can require adjustments or if needed issue qualification letters. This year, three of the four claims were certified without amendment. We were unable to certify the Housing Benefit claim fully and therefore issued a qualification letter to the Department for Work and Pensions.
- 5 The Housing Benefits claim is subject to a full review due to its complexity and high value (see paragraph 11). A qualification letter was issued because we found errors in the classification of overpayments and inconsistencies within the claim form.

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## Certification fees

- 6 The fees we charged for grant certification work in 2008/09 were £33,300. The majority of this fee related to certification of the housing benefit claim.

### Actions

- 7 Appendix 2 summarises my recommendations. The relevant officers of the Council have agreed these recommendations and completed our action plan.

# Background

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- 8 The Council claims £32m for specific activities from grant paying departments. It also collects business rates (NNDR) on behalf of the Government which it pays into the national pool of £62m. 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 evidence that it has met the conditions attached to each claim.
- 9 We are 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 Cherwell District 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.
- 10 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 11 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.
  - 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

### Disabled Facilities Grant

- 12 We were able to rely on the control environment for this claim as it is not a complex claim and is relatively low value. The claim is prepared by experienced staff and supported by good working papers. We have not found any errors in previous audits.

### Pooling of Housing Capital Receipts

- 13 We were able to rely on the control environment for this claim as it is not a complex claim and is relatively low value. The claim is prepared by experienced staff and supported by good working papers. We have not found any errors in previous audits.

### National Non Domestic Rates Return

- 14 We were able to rely on the control environment for this claim even though it is high value and there are a high number of transactions involved as the claim prepared by experienced staff and supported by good working papers. Prior year audits have not found any problems with this claim.

### Housing Benefit and Council Tax Benefit Claim

- 15 We were not able to rely on the control environment for this claim as it is highly complex and very high value. External auditors follow the "Housing Benefit COUNT" methodology which has been agreed by the Audit Commission and Department of Work and Pensions (DWP). The issues with this claim were around the administration of the awarding of benefits during the year and the compilation of the claim at the end of the year.

#### Recommendation

- R1** The findings of the Housing Benefit and Council Tax Benefit Subsidy claim should be shared with relevant members of staff, and should inform ongoing training requirements.

## Specific claims

### 16 National Non Domestic Rates Return

There were no adjustments made to the NNDR claim and the amount payable to the pool of £62m was certified without qualification

### 17 Disabled Facilities Grant

There were no adjustments to the claim for disabled facility grants (value £410,000) and the claim was certified without qualification.

## 18 Pooling of Housing Capital Receipts

There were no adjustments to the claim for the pooling of housing capital receipts (value £155,000) and the claim was certified without qualification.

## 19 Housing Benefit and Council Tax Benefit Claim

This claim was qualified and amended. The cumulated amendments to the claim reduced the subsidy by £23,814. A qualification letter was issued because we found errors in the classification of overpayments and inconsistencies within the claim form:

- testing of rent allowance cases identified five out of 41 cases where a local authority error overpayment was misclassified as an eligible error overpayment;
- we found differences between total expenditure on rent allowances and council tax benefit and their respective in-year reconciliations cells (the total expenditure cells on the claim should be supported by an analysis of this expenditure: rent allowances had a difference of £23,298 and council tax benefit had a difference of £2,065);
- 26 cells in the claim were amended when the Council re-ran the subsidy claim using updated software releases; and
- incorrect child tax credit figures were used in the calculation of 3 out of 23 claims tested (although these did not result in an overpayment on housing benefit subsidy).

### Recommendation

**R2** The Housing Benefit and Council Tax Subsidy claim form should be checked before being presented for audit to ensure that it is internally consistent. Any variances should be investigated, resolved and the claim amended accordingly.

**R3** The Council should ensure that all software releases have been updated on the benefits system before the claim is prepared for submission to the DWP.

**R4** The Council should refresh its training for benefits staff on the classification of overpayments and on how child tax credits should be used in benefit entitlement calculations to ensure benefit is being paid at the correct rate.

# Appendix 1 – Summary of 2008/09 certified claims

## Claims and returns above £500,000

| Service | Claim                                       | Value<br>£ | Adequate<br>control<br>environment | Amended | Qualification<br>letter |
|---------|---|------------|------------------------------------|---------|-------------------------|
| Finance | Housing<br>and council<br>tax benefit       | 31,554,928 | No                                 | Yes     | Yes                     |
| Finance | National<br>non<br>domestic<br>rates return | 61,732,650 | Yes                                | No      | No                      |

## Claims between £100,000 and £500,000

| Service | Claim                                  | Value<br>£ | Amended |
|---------|--|------------|---------|
| Finance | Disabled facilities                    | 410,000    | No      |
| Finance | Pooling of housing<br>capital receipts | 155,097    | No      |



## Appendix 2 – Action plan

| Page no.  | Recommendation   | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility   | Agreed | Comments   | Date                   |
|---|--|--|--|--------|--|------------------------|
| <b>Annual Claims and Returns Report 2008/09 - Recommendations</b> |  |  |  |        |  |                        |
| 6   | R1 The findings of the Housing Benefit and Council Tax Benefit Subsidy claim should be shared with relevant members of staff, and should inform ongoing training requirements.   | 3  | Lauretta Vitalis,<br>Head of<br>Revenues and<br>Benefits | Yes    | The details have been shared with the Service Assurance Team and Capita's administration team who are now dealing with the processing of our benefit claims.   | 09<br>March<br>2010    |
| 7   | R2 The Housing Benefit and Council Tax Subsidy claim form should be checked before being presented for audit to ensure that it is internally consistent. Any variances should be investigated, resolved and the claim amended accordingly. | 3  | Lauretta Vitalis,<br>Head of<br>Revenues and<br>Benefits | Yes    | Expertise/responsibility for this area previously sat with one individual who has now left the authority. Training is now being addressed within the Service Assurance and Finance Teams and future claim forms will be checked and agreed in advance of submission. | 30 April<br>2010       |
| 7   | R3 The Council should ensure that all software releases have been updated on the system before the claim is prepared for submission to the DWP.  | 3  | Lauretta Vitalis,<br>Head of<br>Revenues and<br>Benefits | Yes    | Latest release went in on 20 February 2010 and future releases will be dealt with more timely and certainly before the claim is prepared.  | 20<br>February<br>2010 |

| Page no. | Recommendation   | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility   | Agreed | Comments   | Date                |
|----------|--|--|--|--------|--|---------------------|
| 7        | R4 The Council should refresh its training for benefits staff on the classification of overpayments and on how child tax credits should be used in benefit entitlement calculations to ensure benefit is being paid at the correct rate. | 3  | Lauretta Vitalis,<br>Head of<br>Revenues and<br>Benefits | Yes    | There has been a change in the benefit assessment staff and this work is now done through an outsourced contract with Capita. Capita rolled out refresher training on all aspects overpayments to its staff on 24 February 2010 and training on tax credits will take place by the end of 31 March 2010. | 31<br>March<br>2010 |

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