

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 12 MARCH 2012

Report of the Strategic Director (Shirlene Adam).

This matter is the responsibility of the Leader of the Council, Cllr John Williams

GRANT CLAIMS REPORT 2010/11

Executive Summary

This report introduces the Certification of Claims and Returns report 2009/10 – prepared by our external auditors, the Audit Commission (and set out in an Appendix to this report).

The report, which will be presented by the Audit Commission, summarises their findings from their 2010/11 review work.

1. Background

- 1.1 The Audit Commission has finalised its review of the Councils arrangements to prepare grant claims.
- 1.2 Their full report, along with the detailed recommendations is set out in Appendix 1.

2. Financial Issues / Comments

- 2.1 The claims reviewed by the Audit Commission totalled £76m. This is clearly a significant income stream to the authority and we must make sure that proper arrangements are in place to meet the “conditions” of the grants.
- 2.2 The report highlights several areas where improvements can be made and the action plan reflects this. The action plan will be monitored to ensure the issues are progressed.

3. Legal Comments

- 3.1 There are no legal implications from this report.

4. Links to Corporate Aims

- 4.1 No direct implications.

5. Environmental and Community Safety Implications

- 5.1 No direct implications.

6. Equalities Impact

- 6.1 No implications.

7. Risk Management

7.1 Any risks identified will feed in to the corporate risk management process.

8. Partnership Implications

8.1 The Strategic Director and the Internal Audit Team (SWAP – South West Audit Partnership) will take the findings of this report into account when identifying the areas of risk to be audited next year.

9. Recommendation

9.1 Members are requested to note the Certification of Claims and Returns report from the Audit Commission.

Contact Officers:

Shirlene Adam Strategic Director 01823 356310 s.adam@tauntondeane.gov.uk	Maggie Hammond Strategic Finance Officer 01823 358698 m.hammond@tauntondeane.gov.uk
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Certification of claims and returns - annual report

Taunton Deane Borough 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 2010/11 certification work

The Council should improve the arrangements for compiling its returns, particularly those related to housing.

My work gave rise to amendment of five of the six claims and returns for the year ended 31 March 2011 that the Council was required to submit for certification.

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

Number of claims and returns certified	
Total value of claims and returns certified	£76,640,913
Total number of claims and returns certified	6
Number of claims and returns amended due to errors	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. Following correspondence with CLG the housing base data return had its qualification withdrawn.	1
Total cost of certification work – page 18 for detail	£31,997

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.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing finance base data return	N/a	No	N/a – see detail for explanation	No – initial qualification was withdrawn
Housing and council tax benefit scheme	£35,554,682	Not applicable – tests are prescribed	£1,924	Yes
Pooling of housing capital receipts	£811,690	Yes	£10	No
HRA subsidy	£6,279,802	No	N/a – see below for explanation	No
National non-domestic rates return	£33,735,739	Yes	£151	No

The following summarises the issues that have arisen from the certification work.

Housing finance base data return

The Audit Commission advised auditors to carry out more detailed tests on the data in the form this year because the Department for Communities and Local Government (DCLG) would use it to calculate the self financing settlement for future years.

There were a number of problems with audit of this return.

- The analysis held by the Council's valuer differed from that submitted to the CLG. There were five properties that had been identified for demolition which the Council had incorrectly included in the return. The form was amended but it indicates that the Council is not reconciling its return with information held by the valuer.
- The CLG requires some of the dwellings to be classified by usable area (small or large terrace). The Council did not have records to support this analysis. Instead the housing officer provided a floor plan and wrote down approximate measurements. This meant that of my sample of 20 properties, seven were incorrectly classified and called into question the analysis of the other 670 properties. However, the Council's surveyors then visited the seven properties and confirmed that the approximate measurements were incorrect. Subsequently the Council found the measured floor plans in the DLO. The Council was finally able to provide the evidence to support its return to the CLG.
- Voids – the guidance in the completion of this form required that voids arising from major works on the dwellings should be excluded from the analysis. From my sample of 20, I identified capital works associated with 13 of the dwellings (the rent for which was incorrectly included in the void total). The Council then worked through all the voids and identified whether the period was due to major works. The Council amended the figure for total rent loss due to voids from £252,142 to £216,294.
- The Council included three hostels within its housing stock figures as at 1 April 2011. In fact none of these properties were to be used as hostels from 1 April 2011. Two had been leased to Somerset County Council and the other property had been converted into an office. The form was amended to remove these properties from the return.
- The Council had entered a nil entry for capital contributions the Council has agreed to make towards new build schemes funded by Homes and Communities Agency grant. An e-mail in the Council's file to suggest that this was not correct. The Council amended the form to disclose £617,000 of capital contributions. There was initially a qualification of this entry, however DCLG then amended the entry to zero as it confirmed that the interpretation of the guidance only required expenditure where the Council was responsible for the maintenance of the properties.

The audit certification was due to the CLG on 10 October. In the afternoon of the 10 October the Council requested an extension to ascertain the correct entries for:

- voids;
- notional average weekly rent;

- capital contributions; and
- stock analysis.

DCLG granted an extension to 14 October by which time the uncertainties around stock analysis (floor area), voids and notional average weekly rent were resolved.

However, there was significant additional work for both the audit team and for the Council because of the inadequate evidence to support the entries in Council's initial return and the number of amendments to the return.

Recommendations

- R1** The Council should ensure that it reconciles all its information on housing stock numbers to ensure that an accurate number can be determined.
 - R2** In determining figures for voids the Council should ensure that any periods due to major works are removed.
 - R3** The Council should ensure that its housing stock numbers and available bed spaces are correct.
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Housing benefit and council tax benefit subsidy

The certification instruction is issued by the Audit Commission with the agreement of the relevant paying department (in this case the Department for Work and Pensions). It sets out the number of benefit cases that we are required to test in our initial sample. For Taunton Deane Borough Council the initial sample was 80 cases.

The certification instruction also prescribes additional testing when errors have been found in the initial sample or when errors found in previous years audit testing suggest a high-risk of error in the current year. My audit team found errors in these initial samples and an additional 80 cases were tested by the Council.

My audit team selected the additional sample and passed the cases to the Council to check. We reviewed the findings and we identified instances where claims were marked as correct by the Council when in fact they were incorrect. A further second review was then required of all claims by both the Council and by us. The same issue was also identified in 2009/10 and included in my grant report.

The following issues were identified from the audit.

- Incorrect classifications of overpayments for two of the four Benefit types. (Rent Allowance and Council Tax Cases).
- Incorrect input of change of rent for four Non HRA Rent Rebate claims resulting in one claimant overpaid.

- Incorrect netting of overpayments against underlying entitlement for 2 Non HRA Rent Rebate claims resulting in under statement of subsidy.
- Incorrect classification of one claim under Modified Scheme case, when it should be normal entitlement. Impact of this error is under statement of subsidy.

This year as a result of the issues identified the claim was amended by the Council and a qualification letter issues to the grant paying department. A qualification letter has been issued for the past five years. To put this into context, this is a highly complex claim, and a large number of qualification letters are issued by auditors annually on the benefit claim.

The claim was amended by £1,924, reducing the amount the Council owes to the Department for Work and Pensions.

Recommendations

- R4** Ensure that assurances from the Benefits team that the claims that they have reviewed and are correct have been performed properly
 - R5** Review all Non HRA claims to ensure the correct weekly rents have been used.
 - R6** Review non HRA claims to ensure that overpayments have been correctly netted against underlying entitlement.
 - R7** Verify that all modified scheme cases are in receipt of a war pension
-

Pooling of housing capital receipts

The Council had incorrectly calculated the interest due on late payments.

The Council omitted a pooled receipt in the quarter 1 (to June 2010) return to DCLG. This was then paid across within the next return. However as the payment to the pool was late, interest accrued on this payment, and the interest itself was not paid across until the quarter 4 payment. Also the amount of interest calculated was incorrect as it should have taken into account not only the fact that the initial payment was late, but that the subsequent interest payment was late as well.

Whilst the amount involved is small, the Council was unable to provide working to support the initial amount included in the return. The Council had to recalculate the Interest and then the error was identified.

The Council amended the return to show the correct amount of interest due and total amount payable to the Pool. The claim was certified without qualification.

Recommendation

R8 The Council should ensure that any interest penalty payments are correctly calculated and paid on time.

HRA Subsidy

The claim was submitted for audit before the deadline.

My review of this claim identified issues with this return where incorrect entries had been made on the form. These were due to changes in housing stock numbers which resulted from amendments made to the base data return.

In addition, the Council had not correctly calculated the average borrowing amount in 2010/11 or the average costs of interest on that borrowing. Average external borrowing used the incorrect loan period in 2010/11 and one loan was omitted from the calculation. The impact of this is that the average external borrowing figure was amended from £18,031,000 to £16,427,000.

Also the amount calculated within the accounts to determine the CRI is incorrect. The annual accounts used a figure of £17,231,000, which again was incorrect for the above reasons. The Council should ensure that the average rate of interest payable is based upon all external borrowing the Council had during 2010/11 and is based upon the correct loan period outstanding in 2010/11.

This also has an impact upon the Council's financial statements as the incorrect amount of HRA subsidy is recorded. The impact of the audit adjustments is additional subsidy payable by the Council of £33,000.

Following these amendments, the claim was certified without qualification.

Recommendations

R9 The Council should ensure that the average external borrowing is based upon all external borrowing.

R10 The average rate of interest payable should use the correct loan period outstanding.

R11 The Council should check that the correct consolidated rate of interest is used. The accounts and the subsidy return should be consistent.

National non-domestic rates return

The NNDR3 return did not take into account the movements on the Council's previous NNDR3 system.

The Council prepared a replacement and the claim was certified without qualification.

Recommendation

R12 The Council should ensure that all movements in the financial year are reflected in the national non-domestic rates return.

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

Claim or return	Value of claim or return presented for certification (£)	Value of any amendments made	Qualification letter
Disabled facilities	£259,000	N/A	No

Disabled Facilities Grant

The Council took some time to identify the records to support the entries contained with claim. However once the information was received, the review identified no issues and was certified without amendment or qualification.

Other grant matters

The Council requested that the 2008/09 pooling of housing capital receipts return was re-opened due to an overpayment to the pool. The return had been certified in September 2009 but in July 2010 the Council received notification from a vendor's solicitor that the Council had been incorrectly paid a discount of £14,280. The Council reimbursed the vendor.

Consequently, the Council had overpaid £10,710 (75 per cent of the receipt £14,280) to the national pool in respect of the 2008/09 Pooling of Housing Capital Receipts Liability. At the request of the Council, I wrote a letter to the Department of Communities and Local Government to state these facts so that the Council could recover its overpayment from the Department.

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	Responsible officer	Current status	Comments
Extra testing will be completed in accordance with the recommendation.	Medium	Performance Manager	Not implemented	As with 2009/10, from the review I identified instances where claims were marked as correct by the Council when in fact they were incorrect. A further second review was then required of all claims by both the Council and by my team.
Introduced a quarterly sample check on cases where the 'first day of entitlement' is not a Monday. Assessment staff received refresher training on 'start dates' in July 2010.	Medium	Performance Manager	Implemented	Review of a sample of claims in 2010/11 did not identify any errors of this nature.

Agreed action	Priority	Responsible officer	Current status	Comments
The Council should review all Modified Scheme claims to ensure the claims are supported by proof of the War Pension and the correct income amount has been used to calculate entitlement. This should be completed before submission of the BEN01 claim to the DWP, or at least before start of the audit.	Medium	Performance Manager	Implemented	Review of a sample of claims in 2010/11 did not identify any errors of this nature.
We have already introduced a quarterly sample check on overpayments to check they have been correctly classified.	High	Performance Manager	Implemented	Incorrect classifications of overpayments were identified in 2010/11 for two of the four benefit types (Rent Allowance and Council Tax Cases).
In addition to introducing sample checks of these claims, staff will receive refresher training on how to take Tax Credit income into account for HB& CTB in May 2011.	High	Benefits Manager	Implemented	Review of a sample of claims in 2010/11 did not identify any errors of this nature.
The administration of DFGs will be undertaken by the Somerset West Private Sector Housing Partnership (SWPSHP) from 2010/11 onwards. The Strategy Lead and Housing Accountant will ensure there is a regular and full reconciliation to TDBC's financial accounting records.	Medium	Strategy Lead/SWPSHP Manager	Implemented	For 2010/11, the records used to maintain the disabled facilities grants enabled a reconciliation between the amount of allocation spent in the year and the amounts recorded in the grant claim.

Agreed action	Priority	Responsible officer	Current status	Comments
<p>The Principal Accountant (SWONE Finance Advisory) will review claims as part of supervisory process. Responsibility for claims accuracy ultimately lies with the certifying officer.</p>	<p>Medium</p>	<p>Principal Accountant</p>	<p>Partially implemented.</p>	

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
R1 The Council should ensure that it reconciles all its information on housing stock numbers to ensure that an accurate number can be determined.	High	The council accepts this recommendation and acknowledges the improvement required in relation to data management in this case. New systems will be implemented to give the council confidence in its data quality and accessibility, which will be in place by 31/3/2012.	31 March 2012	James Barrah
R2 In determining figures for voids the Council should ensure that any periods due to major works are removed.	High	The council accepts this recommendation and acknowledges the improvement required in relation to data management in this case. New systems will be implemented to give the council confidence in its data quality and accessibility, which will be in place by 31/3/2012.	31 March 2012	James Barrah

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R3 The Council should ensure that its housing stock numbers and available bed spaces are correct.	High	The council accepts this recommendation and acknowledges the improvement required in relation to data management in this case. New systems will be implemented to give the council confidence in its data quality and accessibility, which will be in place by 31/3/2012.	31 March 2012	James Barrah
R4 Ensure that assurances from the Benefits team that the claims that they have reviewed and are correct have been performed properly.	High	We will continue to carry out checking on any additional sample cases selected.	Immediate	Performance Manager
R5 Review all Non HRA claims to ensure the correct weekly rents have been used.	Medium	We will review all Non HRA claims to ensure the correct weekly rents have been used.	Immediate	Performance Manager
R6 Review non HRA claims to ensure that overpayments have been correctly netted against underlying entitlement.	Medium	We will review non HRA claims to ensure that overpayments have been correctly netted against underlying entitlement.	Immediate	Performance Manager
R7 Verify that all modified scheme cases are in receipt of a war pension.	Medium	We will ensure all modified scheme cases are in receipt of a war pension.	Immediate	Performance Manager

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R8 The Council should ensure that any interest penalty payments are correctly calculated and paid on time.	Low	This was an isolated 'human error'. Procedures have been reviewed and confirmed to produce accurate calculations. Work scheduling has also been updated to avoid penalty payments in future.	Completed	Financial Services Manager
R9 The Council should ensure that the average external borrowing is based upon all external borrowing.	High	Working papers have been redesigned to ensure method for calculating borrowing and interest is accurate in future. A copy of the revised working papers has been sent to the auditor for comment.	Completed	Financial Services Manager
R10. The average rate of interest payable should use the correct loan period outstanding.	High	Refer to R9	Completed	Financial Services Manager
R11 The Council should check that the correct consolidated rate of interest is used. The accounts and the subsidy return should be consistent.	High	Refer to R9	Completed	Financial Services Manager
R12 The Council should ensure that all movements in the financial year are reflected in the national non-domestic rates return.	Medium	We will ensure this recommendation is carried out.	Immediate	Performance Manager

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	£18,818	£25,044	Level of additional testing required in 2010/11 reduced from 2009/10 as a result of fewer errors being identified in the initial sample. Taunton Deane benefits team completed the additional testing.
Pooling of housing capital receipts	£1,425	£1,224	Fee for 2010/11 includes time spent on the follow up of 2008/09 Pooling return.
HRA subsidy	£1,152	£908	Amendments to return in 2010/11. Further discussion and investigations required.
Housing finance base data return	£7,078	£2,606	Increased level of testing required in 2010/11 due to the base date return informing the self financing settlement for the HRA. Errors already outlined in this report.

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
National non-domestic rates return	£1,506	£1,747	Greater reliance upon the control environment for 2010/11. As a result the amount of testing could be reduced.
Disabled facilities	£514	£868	Problems reconciling figures in 2009/10.
Grant planning & reporting	£1,376	£1,486	
TOTAL	£31,869	£33,883	

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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.

