
PKF'S GRANT CERTIFICATION FOR 2008/09

1 SUMMARY

- 1.1 This report introduces a new report from PKF that is attached as an appendix for Members' consideration and discussion. The Grant Certification report summarises the main issues arising from the certification of grant claims for the year ending 31 March 2009. The grant claims audited by PKF were the Housing and Council Tax benefit subsidy, Disabled Facilities Grants and National Non Domestic Rates Return.
- 1.2 In previous years, the results of the external auditors' work on the Council's grant claims has been reported as part of their Annual Audit and Inspection Letter. The Audit Commission has introduced a new requirement this year for a separate report, which now includes a great deal more detail about the findings of the audit work.
- 1.3 PKF report that, overall the Council's claims preparation processes are sound although there is some scope for the Council to improve its arrangements for processing benefit, which will facilitate the production of a more accurate draft Housing and Council Tax subsidy claim for audit. A detailed action plan has been agreed with officers and is included in the appendix to the attached report.

2 RISK IMPLICATIONS

- 2.1 Officers have reviewed the arrangements in place for preparing the Housing and Council Tax subsidy claim to ensure that the issues identified in this report are avoided in future years.

3 RESOURCE IMPLICATIONS

- 3.1 The grant claims audited by PKF are for very large amounts - £16.9m for Housing and Council Tax benefit subsidy and £14m for National Non Domestic Rates Returns. The amendments identified and made to the claim resulted in a reduction in subsidy of £1,641. The fees payable to PKF for carrying out this work is £40,706 compared to £35,632 in 2007/8. The increase is due to the additional cost of the new reporting requirements (ie the report attached) and the additional testing required, as detailed in the attached report.

4 RECOMMENDATION

- 4.1 It is proposed that the Committee **RESOLVES**

- (1) That the content of the report and the action plan be noted.

- (2) That progress on implementing the action plan be included in the monitoring report of external audit recommendations, which is regularly received by this Committee.

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Background Papers:-

None.

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Accountants &
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Rochford District Council

Grant Claim Certification for the year ended 31 March 2009

February 2010

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Statement of Responsibilities of Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

1 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2009. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions 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.
- 1.2 After completion of the tests contained within the Certification Instruction the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.
- 1.3 The Housing and council tax benefit subsidy audit is an integral part of the Use of Resources assessment in considering the Council's data quality arrangements under the Audit Commission's COUNT principle (collect once use numerous times). The results of the integrated benefits work also contribute to the Audit Commission's inspection risk assessment for benefits services. Sample sizes and methodology for this work are prescribed by the Audit Commission.
- 1.4 The Audit Commission's September 2009 *Review of Arrangements for Certifying Claims and Returns* recommended that the findings from grant certification work be taken into account in the use of resources assessment. The guidance for key line of enquiry (KLOE) 2.4 which focuses on risks and internal control has been updated to reflect this and evidence from certification work may also be relevant to KLOE 1.1(financial planning), 1.3 (financial reporting) and 2.2 (data quality). Consequently the outcomes of the 2008/09 certification work, included within this report, will inform the use of resources assessment and Value for Money conclusion for 2009/10.

2 Overall conclusions

- 2.1 Overall the Council's claims preparation processes are sound although there is some scope for the Council to improve its arrangements for processing benefit which will facilitate the production of a more accurate draft housing and council tax subsidy claim for audit.
- 2.2 A detailed Action Plan to assist in securing such improvements in future years has been agreed with officers and is included in Appendix A to this report.

3 Summary of certification

3.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2009:

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on subsidy £	Fee for the year ended 31 March 2009 £	Fee for the year ended 31 March 2008 £
Pooling of housing capital receipts	N/A	N/A	N/A	N/A	-*	1,480
Housing and council tax benefit subsidy	16,898,105	Qualified	6	1,641	34,058	25,888
Disabled facilities grant	107,000	Unqualified	0	0	955	-*
National non domestic rates return	13,999,348	Unqualified	0	0	4,928	4,952
HRA subsidy	N/A	N/A	N/A	N/A	-**	3,312
Grants report	N/A	N/A	N/A	N/A	765	-***
Total for 2008/09	31,004,453	1 Qualified	6	1,641	40,706	35,632
Total for 2007/08	29,030,193	1 Qualified	6	34,450	-*	1,480

* Below the Audit Commission de-minimis level of £100,000 therefore did not require certification

** No further claims due to the transfer of the Council's housing stock to Rochford Housing Association.

*** Not mandated nor charged as section 28 work last year.

3.2 The Grants Report included in the table above is mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared. The cost of reporting is now charged under section 28 of the Audit Commission Act 1998 and is calculated based upon the number of hours taken to draft, agree and finalise the report.

4 Detailed findings

Overall arrangements

- 4.1 Overall the Council has sound arrangements for producing working papers to support the claims that they compile and the Officers that prepare the claims have a good understanding of the requirements of the grant paying body in respect of completing claim forms.
- 4.2 As in previous years the claims produced generally require few, if any, amendments. The housing and council tax benefit subsidy claim presents the greatest challenge and is more prone to error. The results of the audit of this claim have been set out in more detail below.

Housing and council tax benefit subsidy claim

- 4.3 This year more errors and uncertainties were identified with the housing and council tax benefit subsidy claim than in previous years, increasing the amount of work required to conclude the audit.
- 4.4 The audit resulted in amendment of the following quantifiable errors:
- incorrect classification of excess benefit paid (overpayments) between eligible error and local authority error, in respect of non HRA rent rebates.
 - incorrect split of non HRA rent rebate expenditure between the “below the threshold” and the “above the threshold and below the cap” categories.
 - standard benefit calculated for modified scheme claims with war widows pensions was overstated due to an incorrect parameter included in the Academy IT system, although the benefit paid in total was correct.
 - standard benefit for modified scheme claims was overstated due to incorrect netting-off of some benefit entries, by the IT software, with the draft claim.
 - non HRA rent rebate benefit paid and local authority error excess benefit (overpayments) had been incorrectly netted down as a result of incorrect ‘flagging’ of benefit adjustments by benefit processors.
- 4.5 After the compilation of the draft claim and its submission for audit, the Council were informed by Capita, the Academy software providers, of a possible error with regard to recording the start point for non HRA rent rebate and rent allowance local authority error excess benefit (overpayments). In response the Council undertook a prompt review of all cases of excess benefit within these categories, classified as local authority error, and identified a number of cases that required amendment. The Council amended the draft claim and provided us with a list of all claims reviewed, and those amended, on the final audited claim. This approach was both proportionate and appropriate and enabled us to focus our audit work on re-performance of a 10% sample of cases to conclude on the accuracy of the adjustments made. This action reduced the level of audit fees that would otherwise have been payable.

- 4.6 The correction of the above quantifiable errors resulted in a £1,641 decrease in subsidy claimed. However, in addition to the amendments made to correct quantifiable errors, the claim was qualified due to the following issues which could not be quantified or corrected. Consequently the impact on subsidy in respect of these matters is not known:
- reconciliation of benefit expenditure, using the workbooks provided by Capita, was not fully completed by the certification deadline. Since completing the audit we have been informed by the Council that they have been able to fully complete the reconciliation.
 - eligible rent for one non HRA rent rebate was found to be incorrect and we were unable to establish whether this error was isolated in nature.
 - one case of incorrect classification of council tax excess benefit paid between “eligible error” and “local authority error”, which we concluded was not isolated, leading to further sampling being undertaken.
- 4.7 The testing of an additional sample of 192 cases selected for “40+” testing under the Audit Commission’s prescribed mechanism for responding to, and extrapolating the results of, failures in the original sample of 55 benefit cases tested, was completed by us, except for the errors identified with modified schemes (51 of the 192 additional cases sampled). The Council undertook the review of all modified schemes for the errors identified above. We reviewed this work and undertook re-performance testing on 10% of the cases tested by the Council. Our re-performance testing was satisfactory and we were able to rely on the Council’s work in forming and reporting our conclusions.
- 4.8 In accordance with the directions of Certification Instruction BEN01, the technical details of the reasons for qualification were set out in a qualification letter to the Department for Work and Pensions. This letter is included as Appendix B.

Appendix A – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Housing and council tax benefit subsidy					
A number of errors were due to excess benefit being misclassified between types, resulting in misstatement of subsidy claimed.	1. Review the results of cases identified where excess benefit is classified incorrectly, both from audit reviews and any internal accuracy checks completed, to identify trends both by staff member and common error types.	High	Quality Assurance team checks now include subsidy classification of any overpayment created. Review of sample of official error overpayments will also be carried out at regular intervals to ensure correct classification.	Assistant Benefits Manager	Quality assurance checks already in place, sampling to commence from March 2010
	2. Provided targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff.	High	Refresher training has already taken place.	Senior Officer (technical)	10 February 2010
Academy does not process overpayments correctly on claims which have both standard expenditure and modified schemes.	3. Review modified schemes entries in the draft subsidy claim, prior to submission, to ensure they have been correctly accounted for.	High	Parameters within the system have been corrected and 2009/10 expenditure already amended.	Senior Officer (technical)	Corrected in February 2010
A comparison to last year's claim form may identify possible errors early on and could reduce the cost of the audit.	4. Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.	Medium	This will be undertaken again for the 2009/10 claim.	Assistant Benefits Manager	Start April 2010, complete by 31 May 2010

Appendix B – Housing and Council Tax benefits subsidy qualification letter

Department for Work and Pensions
Housing Benefits Unit
Room 512
Norcross
Blackpool
FY5 3TA

Our ref: 1012597/DE/09-10/BEN01

30 November 2009

Dear Sir/Madam

Rochford District Council
Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2009 (Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated 30 November 2009

Details of the matters giving rise to our qualification of the above claim are set in the Appendix to this letter. The factual content of our qualification has been agreed with officers of the Council.

The extrapolated values detailed in the Appendix are not cumulative and treat each error identified in isolation. No amendments have been made to the claim for the issues raised in this qualification letter.

All other matters arising from the audit of the claim have been corrected.

Yours faithfully

PKF (UK) LLP

Reconciliation of housing and council tax benefit expenditure

Cell 011 - Rent Rebates (Tenants of Non HRA Properties) Total Expenditure (Benefit Granted): £108,864

Cell 055 - Rent Rebates (Tenants of HRA Properties) Total Expenditure (Benefit Granted): £2,378

Cell 094 - Rent Allowances Total Expenditure (Benefit Granted): £12,021,215

Cell 142 - Council Tax Benefit Total Expenditure (Benefit Granted): £5,203,057

To date the Council have been unable to fully reconcile the benefit expenditure using the standard reconciliation workbooks provided by Capita. The imbalances reported in Tab 12 of the workbooks are:

- Private tenant awards (Tab 12 cell I47): £557
- Council tenant awards (Tab 12 cell I65): -£668
- Council tax benefit awards (Tab 12 cell I83): -£1,156.

We understand that the Council are continuing to work on the reconciliation and will be discussing this further with Capita to secure completion by the end of December 2009.

Calculation of eligible rent

Cell 013: Non HRA Rent Rebate expenditure between the threshold and up to and including the cap

Cell 013: cell total: £39,656

Cell 013: cell population: 62

Headline cell: Cell 011: £108,864

Our detailed testing identified one case where the eligible rent had been calculated incorrectly and benefit was incorrectly calculated as a result. We could not establish sufficient cause to consider that this error was isolated in nature.

Given the population and the nature of the error identified, an additional random sample of 40 cases was taken from the audit trail supporting headline cell 011 (so as to enable us to determine any impact of miscalculation of eligible rents on the split of the cell 011 entry into cells 012, 013 and 014) and one further error was identified.

The result of the testing is set out in the table below:

Testing and sample size	Cell total [CT]	Sample error [SE]	Sample value [SV]	Percentage error rate [SE/SV]	Cell adjustment [CT x (SE/SV)]	Revised cell total cell adjustment applied
Initial sample – 15 cases	£39,656	£210	£6,299	3.33%	£1,321	£38,335
Additional sample – 40 Non HRA rent rebate cases	£39,656	£50	£27,954	0.18%	£71	£39,585
Combined sample results – 55 cases	£39,656	£260	£34,253	0.76%	£301	£39,355

The testing confirmed that in both cases benefit had been overpaid due to a miscalculation of eligible rent. Cell 013 has, therefore, been overstated by £260 and cell 026 LA error overpayments has been understated by the same amount.

If these cases were to be amended, and the extrapolated value applied, it would result in a reduction of cell 013 and an increase in cell 026 LA error overpayments of £301. The LA error overpayment will remain under the lower threshold and will, therefore, attract 100% subsidy on the extrapolated amount of £301. The corresponding reduction in cell 013 would decrease subsidy by £30 as cell 013 attracts subsidy at 10%. The net impact on subsidy due is, therefore, an understatement of £271.

The error identified in the initial sample of 15 cases also impacted on cells 026 and 028, where overpayments recorded for later benefit periods had been based on an incorrect underlying benefit entitlement due to the original error in the calculation of eligible rent. Cell 028 is understated by £35 and cell 026 understated by a further £49. This did not occur in any of the random sample of 40 cases later tested. Given the nature of the circumstances within which these errors arose, we do not consider it appropriate to extrapolate the results as this would be unlikely to be representative of the nature of the error.

There is no impact on the headline cell as the error relates to the classification of the total expenditure (Benefit Granted) for subsidy. The value of the errors found range from £35 to £210 and the benefit period ranges from 38 to 168 days.

Classification of eligible excess benefit

Cell 148: Council Tax eligible excess benefit

Cell 148: cell total: £72,386

Cell 148: cell population: 1,297

Headline cell: Cell 142: £5,203,057

Our detailed testing identified one case where an overpayment had been incorrectly included within cell 148 when it should have been classified as a current year LA error excess benefit and included in cell 147. Testing of other eligible overpayments in cell 028, including a random sample of 40 cases, indicated that there could be a more widespread issue with the classification of eligible overpayments although, in respect of cell 028, the complete population was tested and the errors rectified in the final claim.

Given the nature of the population and the errors found, an additional random sample of 40 cases was selected from the audit trail supporting cell 148, which identified a further 10 instances of misclassification of eligible excess benefit. The result of the testing is set out in the table below:

Testing and sample size	Cell total [CT]	Sample error [SE]	Sample value [SV]	Percentage error rate [SE/SV]	Cell adjustment [CT x (SE/SV)]	Revised cell total cell adjustment applied
Initial sample – 8 cases	£72,386	£1	£483	0.21%	£152	£72,234
Additional sample – 40 eligible overpayment cases	£72,386	£2,580	£11,169	23.09%	£16,714	£55,672
Combined sample results – 48 cases	£72,386	£2,581	£11,652	22.15%	£16,033	£56,353

Both the original and the additional random sample identified the following excess benefit misclassifications:

- 9 cases where the eligible excess benefit should have been classified as technical excess benefit in cell 149 as there was no longer a council tax liability. In the majority of cases this was because the claimant had died. As a result cell 148 is overstated by £2,399 and cell 149 is understated by the same amount. This equates to an extrapolation value of £14,896.
- 2 cases where the eligible excess benefit should have been classified as LA error in cell 147. As a result, cell 148 is overstated by £183 and cell 147 is understated by the same amount. This equates to an extrapolation value of £1,137.

If the extrapolated errors were applied this would:

- reduce subsidy claimable by £5,958 in respect of the 9 cases that should be classified as technical excess benefit as cell 149 attracts zero subsidy compared to the 40% subsidy attracted by cell 148. Three of these cases extended back to prior years and would, therefore, impact on the prior year excess benefit cell 155. However, if corrected, this would have no further impact on subsidy claimable as this cell also attracts zero subsidy.
- increase subsidy claimable by £682 in respect of the 2 cases that should be classified as LA error excess benefit as the lower threshold for LA error excess benefit (cell 202) would not be breached by the increase in cell 147 and so the excess benefit would be claimable at 100% compared to the 40% claimable when classified as eligible error in cell 148.

There is no impact on the headline cell as the error relates to the classification of the total expenditure (Benefit Granted) for subsidy.

The value of the errors found range from £0.80 to £1,075 and the benefit period ranges from 7 days to 363 days.