

# **Certification of claims and returns - annual report**

**South Somerset District Council**

**Audit 2009/10**

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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 show 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 our assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** South Somerset District Council receives more than £49 million 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 the Council manages certification work properly and can show to us, as auditors, the relevant conditions are met.

**2** In 2009/10, our audit team certified 2 claims with a total value of £48 million and an extra certification of the contribution to the central pool for Non-Domestic Rates of £35 million. Of these, we carried out limited reviews of the claim for disabled facilities grant and the non-domestic rates return and a full review of the housing benefit claims. (Paragraph 17 explains the difference.)

**3** We amended the housing benefit claim and issued a qualification letter to the grant paying body (Department of Work and Pensions). Appendix 1 sets out a full summary.

**4** The fees we charged for grant certification work in 2009/10 were £30,072 against an estimated cost of £34,000 in our audit and inspection plan issued in April 2010.

## Significant findings

**5** We qualified the Council's housing benefit and council tax benefit subsidy claim for the following issues identified from our audit testing.

- One underpayment of council tax benefit where a single person discount was mistakenly allowed in the council tax system.
- One underpayment of benefit for a homeless Board and Lodging case.
- Payments above the cap of £186.80 a week for housing benefit subsidy for homeless boarding lodging benefit have been processed through another system and consequently omitted from the claim. There was no impact on subsidy.

The underpayments will be included in the 2010/11 subsidy claim.

**6** Additional testing of council tax benefit cases also found one claimant with an entitlement to single person's discount but it had not been awarded in the council tax system. This resulted in an overpayment of benefit and subsidy being over claimed. This is because the award of single person's discount reduces the council tax liability, which in turn reduces the council tax benefit..

**7** We extended the programme of testing to the remaining 73 council tax benefit cases for which there was a single person in the household and no single person discount had been awarded.

**8** Our extended testing found 57 cases had a right to single person's discount but it had not been processed in the council tax system, resulting in an overpayment of benefit of £15,193. For 50 of these 57 cases the Council's own controls had identified and amended these errors in 2010/11.

**9** As a result of testing all cases for which there was one adult living in a property and no single person discount has been awarded the Council was able to amend the claim form for these overpayments.

**10** The Council has introduced extra controls to ensure that single person's discounts are only awarded to eligible council tax payers. The Council is expecting these controls to be fully effective for 2010/11

## **Certification fees**

**11** In April 2010 we issued the letter setting out an estimate of audit and inspection fees. Included in this letter was the estimate fee for the certification of 2009/10 claims to be £34,000

**12** The total fee for the three returns that we audited in 2009/10 amounts to £30,072 and has reduced from £38,847 in 2008/09.

## **Actions**

**13** Appendix 2 summarises our recommendations and action plan agreed with officers.

# Background

**14** The Council claims around £48 million for specific activities 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 the Council can evidence that it has met the conditions attached to each claim.

**15** Section 28 of the Audit Commission Act 1998 requires us to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to South Somerset District Council. We charge a fee to cover the full cost of certifying claims. The fee depends on the work required to certify each claim or return.

**16** The Council is responsible for compiling grant claims and returns as the requirements and timescale set by the grant paying departments.

**17** 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 preparing the claim or return to decide whether 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 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 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

**18** We concluded that we can rely on the Council's control environment. This has allowed us to reduce the amount of testing we have had to undertake and results in lower audit fees.

**19** There have not been any amendments to the non domestic rate return in the past two years. Consequently, based on the Council's reliable control environment we have been able to limit the number of audit tests to be carried out in 2009/10. However, every three years the full range of tests has to be carried out, regardless of the strength of the control environment.

**20** Testing of the NDR system reports to the return found an amendment of £277 was required to total losses on collection.

## Housing benefit and council tax benefit subsidy claim

### Council tax subsidy

**21** Our initial testing found an underpayment of council tax benefit where a single person discount was mistakenly allowed in the council tax system.

**22** The underpayment has subsequently been paid and will be included in the 2010/11 benefits subsidy claim

**23** Where errors are found in our initial testing we are required to extend our testing to allow us to agree an amendment or to include more testing results in the qualification letter.

**24** Extended testing identified one claimant with an entitlement to single person discount but it had not been awarded in the council tax system resulting in a benefit overpayment of £241.

**25** The Council was able to identify all cases where there was only one person in the household and single person discount had not been awarded.

**26** Testing of these 73 cases found 57 claimants with a right to single persons discount but it had not been awarded in the council tax system resulting in overpayment of £15,193 in benefits.

**27** The claim form was amended by £15,434 for total overpayments. Consequently subsidy due to the authority was reduced by £15,434.

**28** Our previous audit of the 2006/07 benefit claim found differences between entitlement to single persons discount and awarding of the discount in the council tax system.

- 29** The Council put controls in place to ensure that new council tax benefit claims could not be processed unless the number living in the property was consistent with the council tax system.
- 30** The Council has also identified all older cases for checking and has made substantial progress with verification and is expecting this to be completed by 31 March 2011.
- 31** During 2010/11 the Council's verification process had already identified and amended 50 of these 57 inconsistencies but effective from 2010/11. The 2009/10 claim still had to be amended.
- 32** The Council is undertaking a project to confirm and update each council taxpayer's eligibility to single person discount. The Council expects this project to be substantially complete by 31 March 2011.

## Recommendation

- R1** The Council should check that there are no inconsistencies between numbers in household of council tax benefit claimants and awards of single person discounts. The Council can generate these reports and review them on a quarterly basis.
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### **Board and lodging benefit subsidy for homeless claimants**

- 33** The Council has not included any values in the claim for payments above the cap.
- 34** The cap for the authority is set at £186.80 a week.
- 35** The housing benefit system calculates the housing benefit and subsidy for the claim form. Processing of amounts above cap is through a different system excluding them from the claim form.
- 36** The omission of payments over cap within the housing benefit system has had no impact on subsidy.
- 37** From 1 April 2010 the Council is using the housing benefit system to record the full amount of rent and calculate the total benefit payable.
- 38** Our initial testing of board and lodging subsidy payments found.
- One case where a wrong rate had been used for deducting breakfast resulting in a small overpayment.



- One overpayment of 3 days benefit for a case where benefit had been incorrectly recalculated back to 2005, originally £21,048 and subsequently identified and corrected by the Council for £21,005. The risk lies with the authorisation of large payments, where we recommend more stringent checks.
- One case where the backdate rule had been incorrectly applied resulting in misclassification in the claim form.
- One case where an incorrect rate had been used for the deduction of heating resulting in a small overpayment.

**39** Where errors are found in our initial testing we are required to extend our testing to allow us to agree an amendment or to include more testing results in the qualification letter.

**40** We extended our testing to all cases with a deduction for breakfast. No further errors were found.

**41** We extended our testing to all large recalculations and resulting amendments. No more errors were found.

**42** We extended our testing to the only other case classified as backdated. We found the payments had also been mistakenly classified as backdated and the claimant had been underpaid benefit of £1,448.62.

**43** We extended testing to all cases with a deduction for fuel or heating and found that 2 cases had been overpaid by less than £10 in total.

**44** The Council amended the claim form for the overpayments and the misclassification of backdates. The underpayments have subsequently been paid and will be included in the 2010/11 benefits subsidy claim.

**45** The Council recognises the need to provide more training for staff to avoid these errors in future.

## Recommendation

- R2** The Council should generate reports (on a quarterly basis) to identify and amend any incorrect deductions from board and lodging charges.
- R3** The Council should review benefit payment run reports and check any unexpectedly large payments for errors resulting in overpayments.
- R4** The Council should provide briefings to staff on backdate rules for board and lodging cases.

## Other matters

### **2008/09 Housing benefit and council tax benefit subsidy claim**

**46** The Department for Work and Pensions (DWP) contacted the Council on 6 September 2010 for more information to be verified by us.

**47** The Council replied to the DWP in November 2010 and has undertaken more testing on income based housing benefit claims, which it completed in December.

**48** In January we reviewed the Council's testing and calculations. We concluded that the results of the testing are fairly stated. The audit fee for this further work is estimated at £1760.

## Appendix 1 Summary of 2009/10 certified claims

### Claims and returns above £500,000

Service	Claim	Value £	Adequate control environment	Amended	Impact on income + = increase - + decrease	Qualification letter
Revenues and benefits	Housing and council tax benefit	47,356,304	Yes	Yes	-15,894	Yes
Revenues and benefits	Non- domestic rates	34,950,907	Yes	Yes	-277	No

### Claims between £125,000 and £500,000

Service	Claim	Value £	Amended	Qualification letter
Environmental services	Disabled Facilities Grants	356,000	No	No

## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

The Council should check that there are no inconsistencies between numbers in household of council tax benefit claimants and awards of single person discounts. The Council can generate these reports and review them on a quarterly basis.

<b>Responsibility</b>	Revenues and Benefits Manager
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<b>Priority</b>	Medium
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<b>Date</b>	31 December 2010
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<b>Comments</b>	Reports now run and correction made on a weekly basis.
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#### Recommendation 2

The Council should generate reports (on a quarterly basis) to identify and amend any incorrect deductions from board and lodging charges

<b>Responsibility</b>	Revenues and Benefits Manager
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<b>Priority</b>	Medium
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<b>Date</b>	February 2011
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<b>Comments</b>	This will form part of our ongoing subsidy monitoring work.
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#### Recommendation 3

The Council should review benefit payment run reports and check any unexpectedly large payments for errors resulting in overpayments.

<b>Responsibility</b>	Revenues and Benefits Manager
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<b>Priority</b>	Medium
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<b>Date</b>	14 January 2011
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<b>Comments</b>	None
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#### Recommendation 4

The Council should provide briefings to staff on backdate rules for board and lodging cases.

<b>Responsibility</b>	Revenues and Benefits Manager
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<b>Priority</b>	Medium
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<b>Date</b>	January 2011
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<b>Comments</b>	None
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