



## **South Somerset District Council**

Certification work report 2011/12

January 2013

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# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some three to eight months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Grant Thornton and the Audit Commission have certified two claims and returns for the financial year 2011/12 relating to expenditure of £92 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 The National Non Domestic Rates return was completed by the Audit Commission prior to our appointment as the Council's auditors on 1 November. The findings set out in this report therefore represent the some of the results of your previous auditors' work.
- 1.7 A summary of both claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

### Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

### Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	Both claims were submitted on time to audit and they were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Both claims were amended and one of these was qualified as well. The auditor amended the non-domestic rates return because of errors in interest payable and write offs to decrease the amount payable to the national pool. The housing benefit and council tax benefit claim was amended and a qualification letter was issued. This claim is complex and many local authorities have amendments and qualification letters issued.
Supporting working papers	Staff in the finance section, revenues and benefits have been very helpful during our certification work. There was additional time spent on certification of the non-domestic rates return because the system reports did not identify write offs and interest payments processed in March 2012.

#### The way forward

- 1.8 We have made a number of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will assist the council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

#### Acknowledgements

- 1.10 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**January 2013**

## 2 Results of our certification work

### Key messages

- 2.1 We and the Audit Commission have certified two claims and returns for the financial year 2011/12 relating to expenditure of £92 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
<b>Total claims/returns</b>		2		3		
Number of claims submitted on time	100%	2	100	3	100	→
Number of claims certified on time	100%	2	100	3	100	→
Number of claims certified with amendment	0%	2	100	2	66	→
Number of claims certified with qualification	0%	1	50	1	33	→

- 2.3 This analysis of performance shows that:
- the number of claims that required certification has reduced. The Department no longer requires the audit certification of disabled facilities grants.
  - the two claims that we certified required amendments and there was one qualification letter.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.
- 2.6 We charged a total fee of £7,716 to complete the certification of the housing benefit and council tax benefit and to complete this report in 2011-12. In addition, your previous

auditors the Audit Commission, charged a fee of £15,646 giving a total fee of £23,362 against an indicative budget of £30,167, as communicated in the fee letter of 8 April 2011. Details of fees charged for specific claims and returns are included at Appendix B.

### **Significant findings**

- 2.7 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

#### **Certification of Housing Benefit and Council Tax Benefit**

- 2.8 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 South Somerset District Council the initial sample was 60 cases.
- 2.9 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. We found errors in the initial samples and the Council reviewed an additional 650 cases. We reviewed the Council's work and confirmed its findings.
- 2.10 The Council amended the claim by £139, increasing the amount the Department for Work and Pensions (DWP) owes to the Council. There were a number of underpayments and overpayments to claimants. We issued a qualification letter and the DWP could apply the error rates, which the Council has estimated would increase subsidy by up to £3,401. This is because the Council errors receive 100% subsidy provided the total Local Authority errors remain below the threshold set by the DWP.
- 2.11 The following issues were identified from the audit.
- One incorrect classification of Non HRA Rent Rebate (i.e. bed and breakfast) between expenditure up to and including the cap and above cap, due to a housing benefit software error in 2010/11, for which the final subsidy claim was amended. In 2011/12, the benefits system Northgate amended these errors, and so in effect “double counted” the error. In order to rectify this a manual adjustment was required in 2011/12 so that the correct subsidy position for these claims across the two years was reflected in the final claim. The impact on the subsidy claim is to increase subsidy due to the Council by £139.
  - incorrect start date for one Non HRA claim resulting in overpaid expenditure. The Council completed 100% testing of all 134 claims of this type and confirmed this was an isolated error and the subsidy claim was amended for this error. The Council amended the claim.
- 2.12 The following errors were identified during the audit and reported in the qualification letter. For each bullet point the extended sample size was 60:
- Incorrect calculation of claimants' weekly earned income resulting in five claimants being overpaid, three claimants being underpaid, four claimants had no impact upon entitlement, and for one further claimant, benefit paid had been incorrectly classified as an overpayment (under/overpayments ranged from £1 - £39 for any individual claimant).
  - Incorrect calculation of claimants' state retirement pension resulting in three claimants being overpaid, 15 claimants being underpaid, and four claimants had no impact upon entitlement (under/overpayments ranged from £1 - £205 for any individual claimant).

- Incorrect calculation of claimants' child and working tax credits resulting in 11 claimants being overpaid, nine claimants being underpaid, and 10 claimants had no impact upon entitlement (under/overpayments ranged from £1 - £180 for any individual claimant).
- Incorrect calculation of claimants' paymaster general office pension resulting in one claimant being overpaid, and six claimants being underpaid (under/overpayments ranged from £1 - £105 for any individual claimant).
- Incorrect calculation of claimants' entitlement using a notional income resulting in one claimant being overpaid, and two claimants being underpaid (under/overpayments ranged from £2 - £11 for any individual claimant).

### **Certification of National Non Domestic Rates NNDR3**

- 2.13 The control totals from the revenues system were incorrect for interest refunds and costs of collection because of an error with the computer system. Where the Council had made interest payments or written off debts in the period between the billing run (early March 2012) and the end of the year – 31 March, the system had incorrectly assigned these adjustments to the following financial year 2012/13.
- 2.14 For interest refunds the Council had used the financial ledger as the source of the figure for the NNDR3 return which was correct but did not agree to the print out from the revenues system. After contacting the system supplier the Council was able to provide a further schedule of interest payments made during March to prove the figure in the NNDR3 return.
- 2.15 However, the Council had used the revenues system to provide the debts written off in the cost of collection. This figure was incorrect because it did not take into account the debts written off in March 2012, of £119,948. The required adjustment increased the costs of collection. There was a further adjustment required (reducing the costs of collection) because the provision for bad debts was based on the arrears at 31 March 2012 (which had included debts which had already been written off). The net effect was to reduce the amount the Council had to pay over to the National Pool by £55,765.

## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

### Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the Council; or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.



### **Certification fees**

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

<b>Role</b>	<b>2011/12</b>	<b>2010/11</b>
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

## B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing benefit and council tax benefit scheme	£53,548,544	Yes	increased by £139 to £53,548,683	Yes	£26,079	£19,767	<p>The fee varies from year to year depending on the complexity of the cases sampled. In 2009/10 the fee was £28,970.</p> <p>Additional time was spent on the qualification letter but the helpfulness of the Council's housing benefit lead has allowed us to conclude efficiently on the additional testing she needed to undertake.</p>

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
National non-domestic rates return	£38,775,898	Yes	Decreased by £55,765 to £38,720,133	No	£1,560	£2,980	All tests have to be carried out at least once every three years. Limited tests (Tests A) had been carried out in 2009/10 and 2010/11 but 2011/12 was the third year in which all tests in Sections A and B of the Certification Instruction had to be performed. The return was amended for errors in interest refunds and write-offs.
Disabled facilities	Not applicable			Not applicable	£365	NIL	CLG no longer requires this claim to be audited.
Reporting to those charged with Governance	Not applicable			Not applicable	£383	£615	Additional requirements to report the results of the certification work, particularly housing benefit
<b>Total</b>	<b>£92,324,442</b>				<b>£28,387</b>	<b>£23,362</b>	The certification fee for 2011/12 was estimated at £30,167 in the fee letter dated April 2011 and in the Annual Governance Report in September 2012.

## C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing benefit and council tax benefit	Communicate the findings of this certification work with benefit assessors so that the correct figures are input for earned income, pensions and tax credits.	High	The findings and impact of the audit were explained to the assessors at a team meeting in December. Sample testing of earned income and pensions is being done and will be ongoing. Sample testing of tax credits will start by the 21 <sup>st</sup> January and, as with the other testing, will be ongoing.
Housing benefit and council tax benefit	Ensure that any amendments in the 2011/12 claim are not double counted in 2012/13.	Medium	This will be done prior to the submission of the final claim for 2012/13. The claim needs to be submitted by 30 <sup>th</sup> April 2013.
National Non Domestic Rates – NNDR 3	Ensure that interest payments and write offs which are processed in the revenues system in March are included in the form NNDR3	High	The discrepancies with the interest and write off totals was identified as a software issue. Our supplier has confirmed that the problem has been fixed. We will not be able to test this until after rollover at the beginning of April 2013.

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