



Annual Certification Report (2011/12)
Fareham Borough Council

Report to those charged with governance

February 2013

Ernst & Young LLP

 **ERNST & YOUNG**

The Members of the Audit and Governance Committee
Fareham Borough Council

13 February 2013

Dear Members

Annual Certification Report (2011/12)

We are pleased to attach our annual certification report for the forthcoming meeting of the Audit and Governance Committee. This report summarises the results of certification work that we have undertaken at Fareham Borough Council on 2011/12 claims and returns.

Scope of work

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. Often these grant-paying bodies require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

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. When such arrangements are made, certification instructions issued by the Audit Commission to Ernst & Young, as appointed auditors of the Council, set out the work we must undertake before issuing our certificate. We certify grants and claims as they arise throughout the year to meet the audited claim/return submission deadlines set by the grant-paying bodies.

Statement of Responsibilities of Auditors and Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This Annual Certification Report is prepared in the context of the statement of responsibilities. It is addressed to the Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Results of certification work

For the period 1 April 2011 to 31 March 2012 we certified four claims and returns with a total value of £64.4 million.

The Housing and Council Tax Benefit claim was both qualified and amended. The amendment to the claim reduced the grant due to the Council from £22,470,945 to £22,460,904, a reduction of £10,041. Details of the qualification matters are included in section 2. Adjustments to subsidy may arise due to this. In recognition that errors arise, the Department for Work and Pensions' subsidy arrangements allows Local Authorities to receive full subsidy for local authority error overpayments providing the total does not exceed a pre-determined threshold (0.48% of correctly paid benefit for the corresponding year). Local authority error overpayments can result from, for example, incorrect information being extracted from a benefit claim or failure to act promptly on the notification of a change of circumstances. The threshold for Fareham was £103,426 ($£21,547,187 \times 0.48\%$) and the total value of local authority errors was £102,526, therefore the Council came close to losing subsidy, so we are discussing with officers an action plan to address the issues arising taking into account the imminent changes in the Housing and Council Tax Benefit regime.

All deadlines for submission of certified claims and returns were met.

Fees for certification work are summarised in appendix A.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting scheduled for 11 March 2013.

Yours faithfully
For and on behalf of Ernst & Young LLP

David Wilkinson
Ernst & Young LLP

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1. Summary of 2011/12 Certification Work

Claim or return	Certificate Instruction (CI) Reference	2011/12 Claim Value £000s	Qualification (Q) Amendment (A) Neither (-)	Reason for issue, and financial effect.
Housing and council tax benefit scheme	BEN01	22,471	(Q) (A)	We identified several errors. Details of these are set out in section 2 below.
National non-domestic rates return (NND3)	LA01	38,702	-	Not applicable
HRA subsidy	HOU01	3,032	-	Not applicable
Pooling of Housing Capital receipts	CFB06	206	-	Not applicable

2. Qualifications in respect of 2011/12 certification work

The certificate that we issue to the grant-paying body is qualified where there is disagreement or uncertainty over an item or items in the claim or return, or the Council has not complied with the scheme terms and conditions. Details of the qualifications made during 2011/12 are provided below.

Claim/Return	Issue and risk arising	Agreed action plan and comments from officers
Housing and council tax benefit scheme	<p data-bbox="555 1339 584 1451"><u>Summary</u></p> <p data-bbox="619 880 671 1451">The total amount of subsidy payable to the Council was £22.471m.</p> <p data-bbox="707 835 823 1451">The Department for Work and Pensions (DWP) sets thresholds for errors made by Council. Should the total value of errors made the Council exceed these thresholds, the Council will lose subsidy.</p> <p data-bbox="850 835 1070 1451">Errors found during certification were assessed and where necessary extrapolated across the populations of the claims. As the Council was close to the Department for Work and Pensions error threshold, it needs to reduce the level of errors to mitigate the risk of exceeding the threshold and losing subsidy. Officers recognise this and have already taken action based on errors we found.</p>	<p data-bbox="555 286 679 808">We recognise that the Council has already taken action to improve its housing and council tax benefit processes since the time period of the claim – 1 April 2011 to 31 March 2012.</p> <p data-bbox="707 286 906 808">So we recommend that the Council assesses the errors identified from our certification work, identifies work still required to achieve improvement and develops an action plan to address each issue which is relevant to the changes in the Housing Benefit and Council Tax Benefit regime.</p>
	<p data-bbox="1137 1205 1166 1451"><u>Results of our testing</u></p>	
	<p data-bbox="1201 853 1254 1451">We tested an initial sample of claims across the main types of benefit.</p>	
	<p data-bbox="1313 875 1366 1451">We found a high level of errors, particularly for non HRA rent rebates. The proportion of errors from our</p>	

initial sample was as follows:

- 9/18 non HRA rent rebates
- 3/20 HRA rent rebates
- 4/20 Rent Allowances
- 2/20 Council Tax Benefit

The Senior Benefits Officer responsible for checking and monitoring claims carries out a 10% check of all claims. In addition all claims assessed by new and temporary assessors are subject to 100% check until this is judged to be no longer necessary.

As a result of this additional testing focussing on the types of error found was required. We selected samples for the Council to test and then reformed a sample of this testing to assess the quality of the work. We concluded we were able to rely on the Council's additional testing.

The results of the testing led either to us agreeing amendments to the claim or including findings in the qualification letter.

Further details of the types of errors from the initial and extended testing are set out below.

Earnings

There were five cases where earnings were not calculated correctly – this led to claimants being either overpaid or underpaid benefit.

Staff were made aware of the errors found in earnings after the claim was certified in November 2012 and were asked to be vigilant.

Eligible rents

There were three errors caused by incorrect assessments and they led to both under and overpayments to claimants.

The Senior Benefits Officer responsible for checking and monitoring claims was made aware of these and is focussing checking in this area.

This arose due to incorrect figures being supplied to the officer responsible for these cases. Training has now been given to the

In four of cases benefit was underpaid due a small

incorrect deduction being made for breakfasts.

officer and the Senior Benefits Officer responsible for checking and monitoring claims is focussing checking in this area.

Misclassification of expenditure

The claim is made up of several entries or "cells" for the different types of benefit granted. We are required to test whether cases have been correctly coded to the cells in the claim.

We found 6 errors in the classification of non HRA rent rebate expenditure due to a systematic calculation error within the benefit software. There was no impact on the claimant but the Council claimed too little subsidy.

Once overpayments to claimants have occurred the impact on subsidy the Council receives from the DWP varies depending on the cause of the overpayment and how it has been coded or classified in the claim. We found twelve Council Tax Benefit cases where type of error had been misclassified.

Other errors in assessment

Testing also identified:

- four cases of benefit overpaid due to assessors using the incorrect date of change for a Pension Credit Assessed Income Figure
- three cases with benefits underpaid and one overpaid case as a result of incorrect date of change for a tax credit calculation being used

All staff received training in December 2012 following certification of the 2011/12 claim.

This training included

- Classifying overpayments
- Applying changes in dates for pension credit
- Applying changes in dates for tax credits and
- Assessing non dependent deductions

- one case of benefit overpaid due to incorrect calculation of a non-dependant deduction
- one case of benefit underpaid due to the 'relevant benefit' rule not being correctly applied.

Single Resident Discount

The certification work on the 2010/11 claim identified that Single Resident Discount (SRD) had not been applied on all Council Tax benefit (CTB) cases. There was no impact on claimants but the Council was overpaid subsidy.

During 2011/12, the Council conducted a review of all CTB claims without a SRD to identify those to which a SRD had not been appropriately applied in previous years and corrected errors on a claim by claim basis through benefits software.

Our testing of the 2011/12 claim identified two further errors.

Compiling the claim

We found and discussed with officers some areas for improvement in respect of:

- ensuring checks recommended by the software supplier are carried out and changes needed from the checks are made - we found one check not fully completed

The claim needs to be compiled, checked internally and submitted to the DWP by 30 April.

Although the Systems and Support Manager carries out checks and records amendments to be made during the year, she is planning to free up additional resource to help her in the compressed timescale for compiling the claim

- minor manual errors for reconciliations in April 2013.

- minor manual errors for uncashed cheques.

Missing claim form

Our testing also identified one case of a missing claim form. The Council was able to produce sufficient evidence of a claim form being received so we concluded this was not an issue for certifying the claim. However the Council has a policy of destroying documents after 10 years, so more claims forms may become unavailable in future.

The Council should assess the impact of its policy on document retention against evidence required to ensure ongoing correct payment of Housing and Council Tax Benefit and subsequent certification of year end claims.

3. Progress on previous auditor recommendations

Progress on recommendations from 2010/11 grant certification work is detailed below.

Issue	Recommendation	Current status
<p>Qualification of NNDR return</p> <p>Audit Commission CI LA01 requires auditors to check entries in the return to prime documents. It was not possible for the Council to produce a retrospective system report as at 31 March 2011 to support one figure. This introduced a potential timing error in the movement in total rateable values between the end of March 2011 and June 2011.</p>	<p>Ensure that relevant reports to support grant claims and returns are produced and retained as part of the grant compilation process</p>	<p>Fully cleared in 2011/12</p>
<p>Qualification of Housing finance base data return</p> <p>The authority's schedule of properties simply indicated which terraced properties were considered small / large. There were no underlying records relating to the measurement of floor areas. Due to this, we could not test this classification in accordance with DCLG guidance.</p>	<p>Review your property records and identify a way to support the classification of terraced properties between small and large.</p>	<p>Return not required in 2011/12 due to ending of Housing subsidy arrangements</p>

Issue	Recommendation	Current status
<p>Qualification of Housing Benefit subsidy claim</p> <p>Our detailed testing revealed a small number of technical benefit assessment errors which led to adjustments to subsidy entitlement. Details of these errors have been passed to the benefits team for consideration</p>	<p>Conduct a review of messages from our benefits audit to identify any training needs to benefit assessment staff</p>	<p>Action has been taken but issues were still identified during certification work.</p> <p>The level of errors identified from the certification of the 2011/12 was high.</p> <p>However due to the timing of certification work, there is an inherent time lag between certification work identifying errors and officers being able to take action, for example training was carried out in December 2012 following certification in November 2012.</p>
<p>The year-end bank reconciliation showed £18,165 of unrepresented cheques that relate to benefits payments.</p> <p>We reviewed a sample of these cheques and while some are genuine unrepresented cheques, others have been cancelled on the Benefits system.</p>	<p>Reviewing the list of unrepresented benefit cheques and make any amendments in your 2011/12 claim.</p>	<p>New procedure implemented in 2011/12 – issue cleared.</p>

Appendix A Certification Fees

Claim/Return	2011/12 Actual £	2010/11 Actual £	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	36,552	24,266	High level of errors found which required additional testing, evaluation and reporting.
National Non-domestic Rate (NDR3)	1,491	2,850	Fee for 2009/10 was £37,187 The fee was higher in 2010/11 as fuller testing is required every 3 years
Housing Subsidy	2,051	1,050	Increase of fee on low base in 2010/11, Fee for 2009/10 was £2,254
Housing Finance Base data return		2,340	Certification not required in 2011/12
Pooling of capital receipts	1,398	690	Increase of fee on low base in 2010/11
Disabled facilities	-	245	Not requiring certification in 2011/12
Planning and reporting	4,000	1,915	Longer report produced.
Total	45,492	33,356	

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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