

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

**South Oxfordshire District Council**

**Audit 2009/10**

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# Summary

**This report summarises the findings from certifying 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that I amended or qualified.**

## Certification of claims and returns

- 1** Funding from government grant-paying departments is an important income stream for South Oxfordshire District Council (the Council). The Council needs to manage claiming this income carefully and spend the income within the conditions set by the government departments.
- 2** Section 28 of the Audit Commission Act 1998 requires auditors to certify specific claims and returns. The Audit Commission and the relevant government departments agree on the work required. The Audit Commission sets out the checks in certification instructions for each claim and return. Auditors charge a fee to cover the full cost of certifying claims and returns. The fee reflects the work required for each claim or return.
- 3** The Audit Commission does not certify claims and returns below £125,000. For specific claims and returns between £125,000 and £500,000 the Audit Commission asks auditors to do limited tests, checking the entries to underlying records.
- 4** For specific claims and returns over £500,000 the Audit Commission has set what has to be done. Auditors assess the control environment for preparing the claim or return. Where they can rely on the control environment, they undertake limited tests to agree the claim or return entries to underlying records but do not undertake any testing of the eligibility of spending or data. Where auditors cannot rely on the control environment, they undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required. This means auditors will ask for lower audit fees for certification work if the control environment is strong.
- 5** The exception to this is the Housing Benefit claim, where the Department for Works and Pensions (DWP) specifies testing under the 'HBCOUNT' methodology. Some testing is carried out on each element of benefit awarded, plus a number of tests relating to parameters, software, and system reconciliations.

**6** Councils are responsible for compiling grant claims and returns under the requirements and timescale set by the grant paying departments. It is important for councils to manage this properly by:

- putting in place a satisfactory control environment over each claim and return; and
- showing how they meet the conditions for each claim or return.

**7** The Audit Commission has published a statement summarising its certification arrangements and the respective responsibilities of grant-paying bodies, councils and auditors. Claims and returns may be amended where a council and auditor agree it is necessary. The auditor's certificate may refer to a qualification letter where there is a disagreement or uncertainty or the council has not complied with the grant or return conditions. More detail on certification arrangements is in the Audit Commission's 'Statement of Responsibilities in Relation to Claims and Returns' at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

## Significant findings

**8** In 2009/10, my audit team certified 4 claims or returns with a total value of £71.8 million. Two of these are prepared by Council officers, and two by Capita on behalf of the Council. Of these, my team carried out a limited review of two claims and 1 return, and reviewed 1 claim under the HBCOUNT methodology. Appendix 1 contains a summary of the work done on 2009/10 claims.

**9** If figures are wrong on claims presented to us to audit I either agree an amendment with the Council officers or if needed issue a qualification letter. Last year two claims were amended for errors.

**10** For housing benefit, I also issued a qualification letter to the grant-paying body. Details of the issues leading to qualification are given below. The qualification letter is included at Appendix 2.

**11** The Department for Works and Pensions has accepted the findings of the qualification letter and the resultant impact on subsidy. However, the Council still has the opportunity to submit mitigation to DWP which may impact on this.

## Certification fees

**12** The fees I charged for grant certification work in 2009/10 were £50,561 (£13,100 of which related to additional work on the 2008/09 housing benefit claim) and in 2008/09 £31,932 and are based on time taken to complete the grant claims. Full information on fees charged for each claim is shown in Appendix 1.

# Findings

## Control environment

**13** There was only 1 claim or return over £500k where I relied on the control environment to reduce the work I carried out. This was the National Non-Domestic Rates Return, which is prepared by Capita on behalf of the Council.

**14** I was able to do this because the preparers are experienced and there were only minor errors in previous claims. Also good working papers are produced.

**15** Due to application of the HBCOUNT methodology, I could not rely on the control environment to limit work on the Housing and Council Tax Benefit Claim. Housing benefit is a complex scheme to administer, and there have been errors in the claim in past years.

**16** The Council has been working with Capita to reduce the level of errors in the housing and council tax benefit claim, but these are not yet delivering real improvements in the level of local authority error. I have therefore included this in the qualification letter.

## Specific claims

### Pooling of Housing Capital Receipts

**17** This claim was adjusted because an incorrect figure had been included for total capital receipts. This did not impact on the amount of grant and was a clerical error only.

### Housing and Council Tax Benefit

**18** The Housing and Council Tax Benefit claim was both amended and qualified. The adjustments were made because:

- Non HRA properties (mainly for homeless people) were incorrectly classified as B&B rather than as short term leasing;
- Water rates paid as part of rental for Non HRA properties was not correctly treated when calculating benefits; and
- Caravan sites owned by the Council were being treated as privately rented properties.

**19** I was able to agree adjustments to the claim as the entire population where the errors had been made could be identified and checked. The adjustments resulted in £10,216 additional subsidy payable to the Council.

**20** For the second year, I also issued a qualification letter on this claim, as it was not possible (even with additional work) to agree an adjustment to the claim.

**21** The areas where the claim was qualified were:

- Chief officer's certificate - one of the requirements of the claim is for the adequacy of the system for awarding benefits and claiming subsidy. Whilst the Council is working with Capita to improve benefit payment and subsidy accuracy, this had not delivered real improvements for the 2009/10 claim;
- Classification of rent allowance overpayments - overpayments resulting from errors in the benefits section had wrongly been shown on the claim as being due to claimants; and
- Classification of council tax overpayments - overpayments resulting from errors in the benefits section or due to technical adjustments had wrongly been shown on the claim as being due to claimants.

**22** DWP has accepted the findings of the audit in full. The impact of the errors noted in the qualification letter amounted to £50,204. The Council was already very close to the limits set by DWP for errors that can be made by benefit sections, and may as a result lose all subsidy on this type of error. DWP is seeking to recover subsidy paid to the Council of £158,967.

**23** This is the second year the level of errors has caused the Council to exceed the upper threshold for allowable errors. Whilst the Council has a contract agreement with Capita for benefit administration, which includes provision for recovery of lost subsidy due to Capita's actions or inaction, it remains the responsibility of the Council to administer benefit payments accurately and to claim subsidy appropriately.

## Recommendations

**R1** Reduce the general level of benefit errors, including reducing the amount of local authority error to well below the Government threshold.

**R2** Improve the accuracy of benefit classifications for subsidy purposes

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## Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns above £500,000**

Service	Claim	Value £	Adequate control environment	Amended	Qualification letter	Audit Fee 2008/09 £	Audit Fee 2009/10 £
Capita	National non domestic rates return	£40,089,458	Yes	No	No	2,852	1,087
Capita	Housing and council tax benefit	£30,782,200	HBCOUNT	Yes	Yes	28,296	34,660 13,100 (08/09)

Table 2: **Claims between £125,000 and £500,000**

Service	Claim	Value £	Amended	Qualification letter	Audit Fee 2008/09 £	Audit Fee 2009/10 £
Finance	Housing capital receipts	478,595	Yes	No	786	1,150
Finance	Disabled facilities	480,000	No	No	2,149	564



# Appendix 2 Housing Benefit Qualification letter

## Qualification letter issued 26 November 2010

<b>Our reference</b>	<b>AC/31571035/MPF720A/MOB/SODC10/3/AO</b>
Your reference	
Date	26 November 2010

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

Dear Sir/Madam

**South Oxfordshire District Council**  
**Housing Benefit & Council Tax Benefit claim for the year ended 31**  
**March 2010 (Form MPF720A)**  
**Qualification Letter referred to in the Auditor's Certificate dated 26**  
**November 2010**

Details of the matters giving rise to my qualification of the above claim are set out in the Appendix to this letter.

The factual content of my qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter unless otherwise indicated in the letter.

Yours faithfully

Anne Ockleston  
Audit Manager

## **Cross cutting qualification issues**

### **Local Authority's certificate**

The claim form certificate has been signed by the Authority confirming that the administrative systems, procedures and key controls for awarding benefits operate effectively and the Authority has taken reasonable steps to prevent and detect fraud. They have provided evidence of how they are doing this by monitoring of work done by their contractor, Capita, and requiring them to improve standards of accuracy. The errors identified this year are consistent with test findings in previous years, suggesting the required improvements are not yet impacting on previously identified issues.

The results of testing where this issue has been identified are recorded in this letter in qualifications against specific cells.

### **Cell 148: Council tax benefit - Eligible overpayments (current year)**

**Cell 148: cell total: £115,344**

**Headline cell 142: £6,650,219**

The testing of the initial sample identified 1 eligible overpayment case where the Authority had misclassified LA error overpayments as eligible overpayments. Given the nature of the population and the errors found, an additional random sample of 40 cases was taken from the audit trail supporting cell 148. This additional testing identified 21 further test failures. Of these the Authority misclassified 15 technical excess benefit cases and 7 LA error overpayment cases as eligible overpayments. The results of my testing are set out in the tables below:

## Results of testing:

Sample:	Movement/brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate (to one decimal place):	Cell adjustment:	Revised cell total if cell adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 20 (6 with overpayments)	cell 148 overstated due to misclassification	£115344	£55.03	£821.78	6.7%	- £7723.94	
Additional sample - 40 cases	of 7 LA and 15 technical errors as eligible overpayments	£115344	£953.16	£4137.29	23.0%	- £26573.26	
Combined Sample – 60 cases		£115344	£1008.19	£4959.07	20.3%	- £23449.69	£91894
Adjustment	Cell 147 is understated.	£115344	£402.28	£4959.07	8.1%	+£9,356.71	Note: 1
Adjustment	Cell 149 is understated.	£115344	£605.91	£4959.07	12.2%	+14,092.98	
Total Corresponding adjustment	.		£1008.19	£4959.07	20.3%	£23449.69	

Note 1: Adjustment for the case failure originally noted has been corrected in July 2010. This will therefore be reflected in the subsidy claimed for that year. This reduces the extrapolated impact on cell 147 by £55.03 to £9301.68.

The errors ranged from £1.84 and £181.00, and covered periods from 3 to 154 days. Given the nature of the population and the variation in the errors found it is unlikely that even significant additional work will result in an amendment to this cell that will allow me to conclude it is fairly stated.

This is the second year the errors in classification of council tax benefit overpayments have been identified.

**Cell 109: Rent Allowance – current year eligible overpayments**

**Cell Total £485656**

**Headline Cell (after adjustment) £24,748,269**

The testing of the initial sample identified 1 eligible overpayment case where the Authority had misclassified LA error overpayments as eligible overpayments. Given the nature of the population and the errors found, an additional random sample of 40 cases was taken from the audit trail supporting cell 109. This identified a further 7 cases where LA error had been incorrectly classified.

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

Sample:	Movement/brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate (to one decimal place):	Cell adjustment	Revised cell total if cell adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 20 (3 with overpayments)	cell 109 is overstated due to misclassification	£485656	£72.45	£468.93	15.5%	- £75034.18	
Additional sample - 40 cases	of LA error overpayments as eligible	£485656	£1214.16	£14829.02	8.2%	- £39764.20	
Combined Sample – 60 cases		£485656	£1286.61	£15297.95	8.4%	- £40845.33	£444810.67
Adjustment	Cell 108 is understated.	£485656	£1286.61	£4959.07	8.1%	+£40845.33	Note: 2
Total Corresponding adjustment	.		£1286.61	£4959.07	8.1%	+£40845.33	

Note 2: Adjustment for the case failure originally noted has been corrected in July 2010. This will therefore be reflected in the subsidy claimed for 2010/11. This reduces the extrapolated impact on cell 108 by £72.45 to £40772.88.

- The errors ranged from £9.03 and £916.92, and covered periods from 5 to 168 days. Given the nature of the population and the variation in the errors found it is unlikely that even significant additional work will result in an amendment to this cell that will allow me to conclude it is fairly stated.

This is the first year the errors in classification of rent allowance overpayments have been identified.

## Appendix 3 Action Plan

### Recommendations

#### Recommendation 1

Reduce the general level of benefit errors, including reducing the amount of local authority error to well below the Government threshold.

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#### Responsibility

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**Priority** High

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**Date**

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**Comments**

#### Recommendation 2

Improve the accuracy of benefit classifications for subsidy purposes.

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#### Responsibility

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**Priority** High

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**Date**

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**Comments**

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Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946