

Certification of claims and returns - annual report

Bracknell Forest Council

Audit 2009/10

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Summary

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 demonstrate 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 my assessment of your arrangements for preparing claims and returns and information on the Housing Benefit and Council Tax Benefit claim that we amended and qualified.

Certification of claims and returns

1 Bracknell Forest Council receives more than £120 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 demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team certified 5 claims with a total value of £95.474 million. Of these, we carried out a limited review of 3 claims and a full review of 2 claims (paragraph 9 explains the difference). There was 1 claim which needed amending, which we were unable to fully certify and therefore issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

Significant findings

3 We were able to certify most claims without amendment or qualification; however we found a significant level of errors while testing cases for the Housing Benefit and Council Tax Subsidy claim. We mentioned the results of our early testing on this claim in our Annual Governance report to the Governance and Audit Committee in September 2010. This report now updates the Governance and Audit Committee on the final results of our work.

Certification fees

4 We charged a total of £74,000 for certification work in 2009/10 (compared to a fee of £60,670 for 2008/09). The most significant element (over 90%) was the fee for the Housing Benefit and Council Tax claim.

Actions

5 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

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Background

6 The Council claims £120 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 that the Council can evidence that it has met the conditions attached to each claim.

7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Bracknell Forest Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

9 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 the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree form 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 of 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 that 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

10 We have been able to rely on the Council's control environment for most parts of all claims, except for Housing Benefit and Council Tax subsidy. This claim falls outside the scope of paragraph 9 because of its size and complexity. The Audit Commission's report on certification work for 2008/09 "Local Government claims and returns" noted that 85% of Housing and Council Tax Benefits claims were either amended, qualified or both.

11 In addition we tested eligibility of expenditure on the Surestart, Early Years and Childcare grant because of our qualification in 2008/09 on eligibility. Results of these tests were satisfactory.

Specific claims - Housing Benefit and Council Tax subsidy

12 We found a high level of errors when certifying the Housing Benefit and Council Tax Subsidy claim. We therefore had to carry out significant extra testing and qualified the claim. This means there were parts of the claim which we reported to the Department for Work and Pensions (DWP) that we could not conclude were fairly stated. We have prepared a separate report on the issues arising for the Housing Benefit team for staff to prepare an action plan to address the issues.

13 We certify the claim using detailed instructions agreed between the DWP and the Audit Commission. Among other tests we have to test an initial "discovery" sample of the main types of subsidy. Should errors be found in that initial sample, we have to evaluate them and assess whether we need to carry out further testing.

14 The table below shows the error rates from our initial discovery sample.

Table 1: Level of errors found in initial discovery samples

type of subsidy	discovery sample size	level of errors
Non HRA rent rebates	15 cases	14 errors
Rent Allowances	20 cases	10 errors
Council Tax Benefit	20 cases	11 errors

15 The discovery sample errors meant we had to carry out more testing to give the DWP the information it requires to determine if further action is required. The overall results of both the initial and discovery testing led to the claim being amended. As a result subsidy payable to the Council increased by £11,222. However due to the number of errors found we also issued a qualification letter to the claim setting out our findings for the DWP. The extrapolated impact of errors set out in our qualification letter could lead to a potential reduction of subsidy of £60,000. This was based on the results of further testing. It is less than our estimate of £228,000 reported in our Annual Governance report in September 2010 which was based on the results of our initial testing.

16 The key themes from our work causing concern were:

- setting of parameters;
- misclassification of expenditure;
- earnings miscalculation or lack of supporting evidence resulting in an overpayment;
- miscellaneous errors;
- interrogation of the Council's Benefit and Revenues system - Pericles; and
- achieving the DWP's deadline for certifying the claim.

17 The Council changed its revenues and benefits system during 2010/11 financial year. It should consider the findings from our certification work in 2009/10 in the context of the new system.

Setting of parameters

18 Each year the Council inputs parameters onto the benefits system to reflect changes in Housing Benefit regulations and allow it to carry out benefit calculations. 8 testing failures in our discovery sample were due to parameters not being updated. We reported in 2008/09 that the rate for second child benefit for 2008/09 had not been input correctly. This was not amended in time for the 2009/10 claim, so payments that related to 2008/09 and which were made in 2009/10 were incorrect. We also found that some parameters for non HRA rent rebates had not been updated and this led to subsidy being under claimed.

19 It is essential the Council inputs parameters correctly in good time. As this is the second year of problems with parameters Internal Audit have agreed to focus some of their testing on parameters in 2010/11.

Recommendation

R1 Parameters

- Ensure these are entered correctly as soon as possible in the year.
- Ensure that this is independently checked.
- Maintain documentary evidence of this - so that further audit

Recommendation

queries can be dealt with efficiently and quickly.

Misclassification of expenditure

20 The claim is made up of several entries or "cells" for different types of benefit granted. Our certification instructions require us to test whether cases have been correctly coded to the cells within the claim. In many cases, particularly overpayments of benefit, the classification of expenditure impacts on the level of subsidy the Council can claim. This is particularly the case when the level of Local Authority overpayments is increased over the threshold for that Council. If the upper threshold is exceeded the Council will lose all subsidy for these overpayments.

21 We found several cases in our original discovery sample where cases had been incorrectly analysed between cells, in particular for Council Tax Benefit overpayments (6 cases) and non HRA rent rebates (8 cases). On finding these errors we had to carry out further testing drilling down to establish the extent of errors.

22 Misclassification of non HRA rent rebates has occurred in previous years' claims. As the number of cases is relatively small we have suggested the Benefits team check all cases before we start work on the 2010/11 claim.

Recommendation

R2 Take urgent action to reduce the level of errors found in classifying expenditure. Carry out staff training and stress the importance of coding expenditure correctly to staff, particularly overpayments. Carry out test checking of cases to assess progress made and any further action including training needs.

R3 Review non HRA cases before certification work to ensure they are correctly classified. Ensure there is evidence on file to support their classification.

Earnings miscalculation or lack of supporting evidence resulting in overpayment

23 We found a number of errors in how claimants' earnings had been calculated. This led to overpayment of benefit to claimants. The Council receives less subsidy for errors it has made.

24 One of the main errors was failing to use the correct number of payslips to support the entitlement of earnings. In many cases there was no

explanation on file for this. The Benefits team have a checklist which sets out how judgements have been reached but we found that it was not used consistently. There is scope to use this checklist and include details of judgements such as why particular payslips or a different number of payslips from the standard guidance are used. This would provide a trail for staff who assess cases at later dates. It would also help managers both in their sample check of cases and in assessing training needs. Finally it may help reduce audit input when certifying the claim.

25 As a result of these errors we had to carry out additional testing (we call this 40 plus testing) focusing on how earnings had been calculated. We found:

- Rent allowances - a further 4 cases containing errors. When the value of errors for all cases tested was extrapolated there was a potential subsidy over claim of £39,769.
- Council Tax Benefit - a further 2 cases found of overpayments of benefit. When the value of all overpaid cases tested was extrapolated there was a potential subsidy over claim of £20,551.

Underpayment of benefit

26 We found a variety of errors which led to claimants being underpaid benefit including incorrect treatment of tax refunds, incorrect calculation of earnings, one claimant being assessed incorrectly as if not in receipt of Income Support, and rent incorrectly recorded. Our 40 plus testing on earnings also identified three further cases underpaid due to incorrect calculation of earned income.

Recommendation

- R4** Take urgent action to reduce the level of errors found calculating earnings. Carry out test checking of cases to assess progress made and any further action including training needs.
- R5** Ensure there is a clear audit trail on the benefits system of how assessors have reached judgements on benefits entitlement.
- R6** Carry out risk based checking of claims to assess if benefit entitlement has been correctly calculated.

Interrogation of Pericles Benefits system

27 On finding errors we had to conduct further tests in more depth to attempt to quantify their impact for the DWP to determine any action. We found that staff were unable to provide extracts of the Pericles system for an error we found on capital cases so this was included as unquantified in the qualification letter. Selecting additional samples around the errors found on earnings was also time-consuming due to this. There is scope for relevant

staff to be trained on the new Northgate system to improve their ability to interrogate the system effectively. If this is not done the Council will continue to be at risk of losing subsidy for benefit payments it makes.

Recommendation

R7 Ensure that benefit managers are able to interrogate the Northgate system adequately for their own management purposes and also to allow errors found as part of certification testing to be quantified.

Achieving the DWP's deadline for certifying the claim

28 Our work took place at a busy time for the Benefits section as staff were engaged with the migration from Pericles to Northgate. We therefore timed our work with the aim of completing it for the end of September to fit around this.

29 We were unable to achieve this as, due to the significant level of errors found, we were required to carry out 40 plus testing. Our testing focused on the errors we found, including:

- earnings for Rent allowances and Council Tax benefit,
- Council Tax Benefit overpayments and
- Guaranteed pension credits (GC).

30 In order to minimise cost to the Council we asked the Benefits team to carry the extra testing. There were delays in getting some of this testing back and much of it was not of sufficient quality for us to rely on. After raising this with senior staff in the service they were able to reperform some of this additional testing but in order to meet the certification deadline we had to carry out the majority of it ourselves. This has impacted significantly on the level of fee for the 2009/10 certification.

31 We have since discussed this with staff. Their view is that if there was an issue in the quality of response due to staff availability, it was because experienced staff were involved with the move to the new system and therefore some requests were dealt with by agency staff who would not have the full knowledge of how the Council operate the systems.

32 In future years, should 40 plus testing be required, staff of appropriate skills should be allocated to the work.

Recommendation

R8 Allocate staff of sufficient skill and experience early in the certification work to ensure that queries are dealt with adequately and promptly, and to carry out 40 plus testing to the required standard.

Looking forward

33 The 2010/11 claim will be made of output from the new Northgate system. But due to the mid year system change some transactions history will remain in Pericles. The processing of claims through two systems will complicate the claim certification during the 2010/11 year. It will be essential there are clear audit trails making up the entries on the claim and that audit queries are responded to promptly and appropriately. We will work with the Benefits team to draw up a timetable with the aim of meeting the certification deadline. We suggest that this is done as soon as possible.

Recommendation

R9 The Council should establish an action plan with clear timescales and responsibilities to:

- address the findings of this report;
- ensure there is a clear audit trail for the entries for the 2010/11 claim; and
- ensure there is a timetable to meet the certification deadline.

Phil Sharman
District Auditor
February 2011

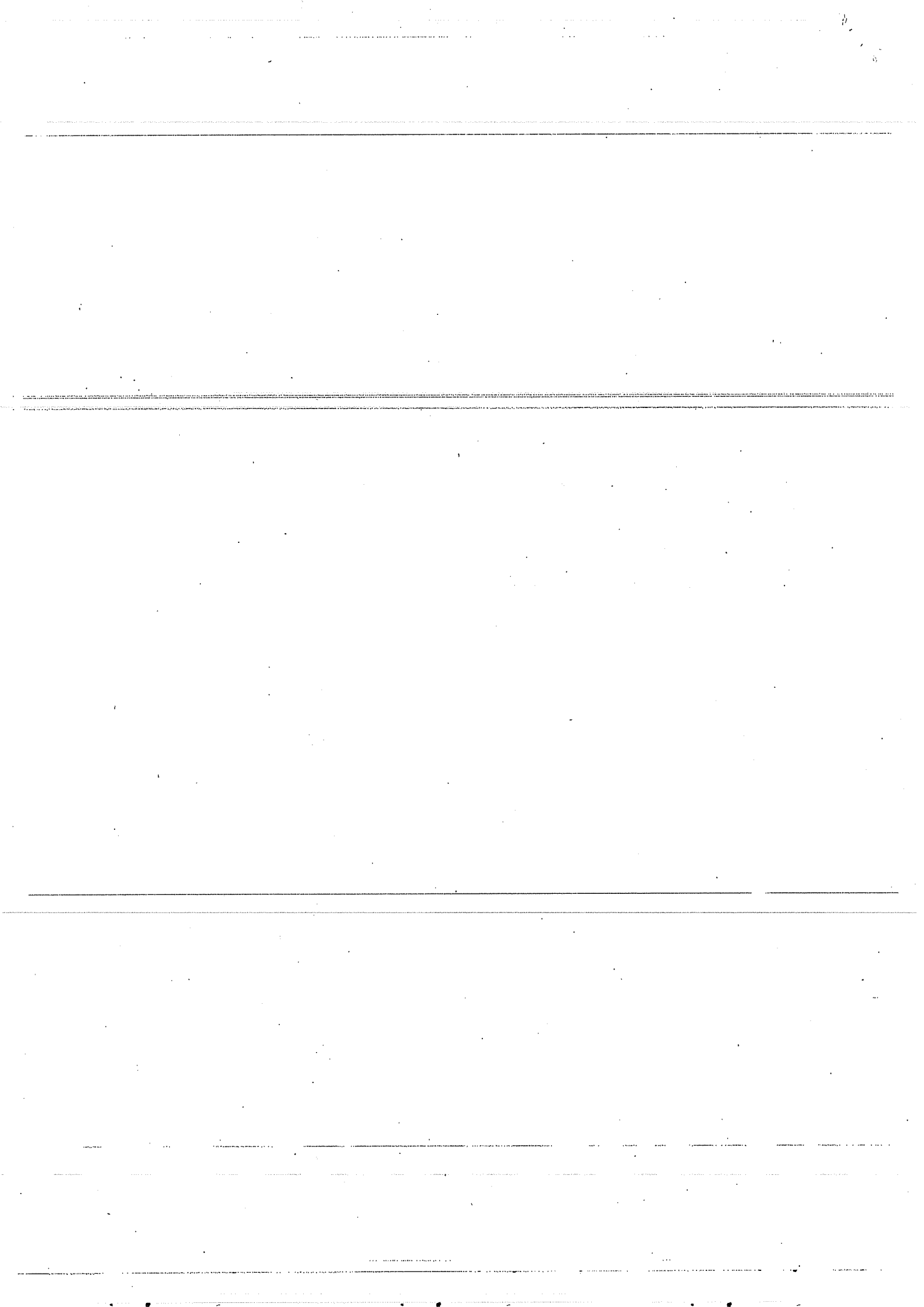
Appendix 1 Summary of 2009/10 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	32,287,215	No	Yes	Yes
Sure Start, Early Years and Childcare	3,024,205	Partial due to qualification on eligibility in 2008/09.	No	No
National Non Domestic Rates	53,509,084	Yes	No	No
Teachers' pensions return	6,391,378	Yes	No	No

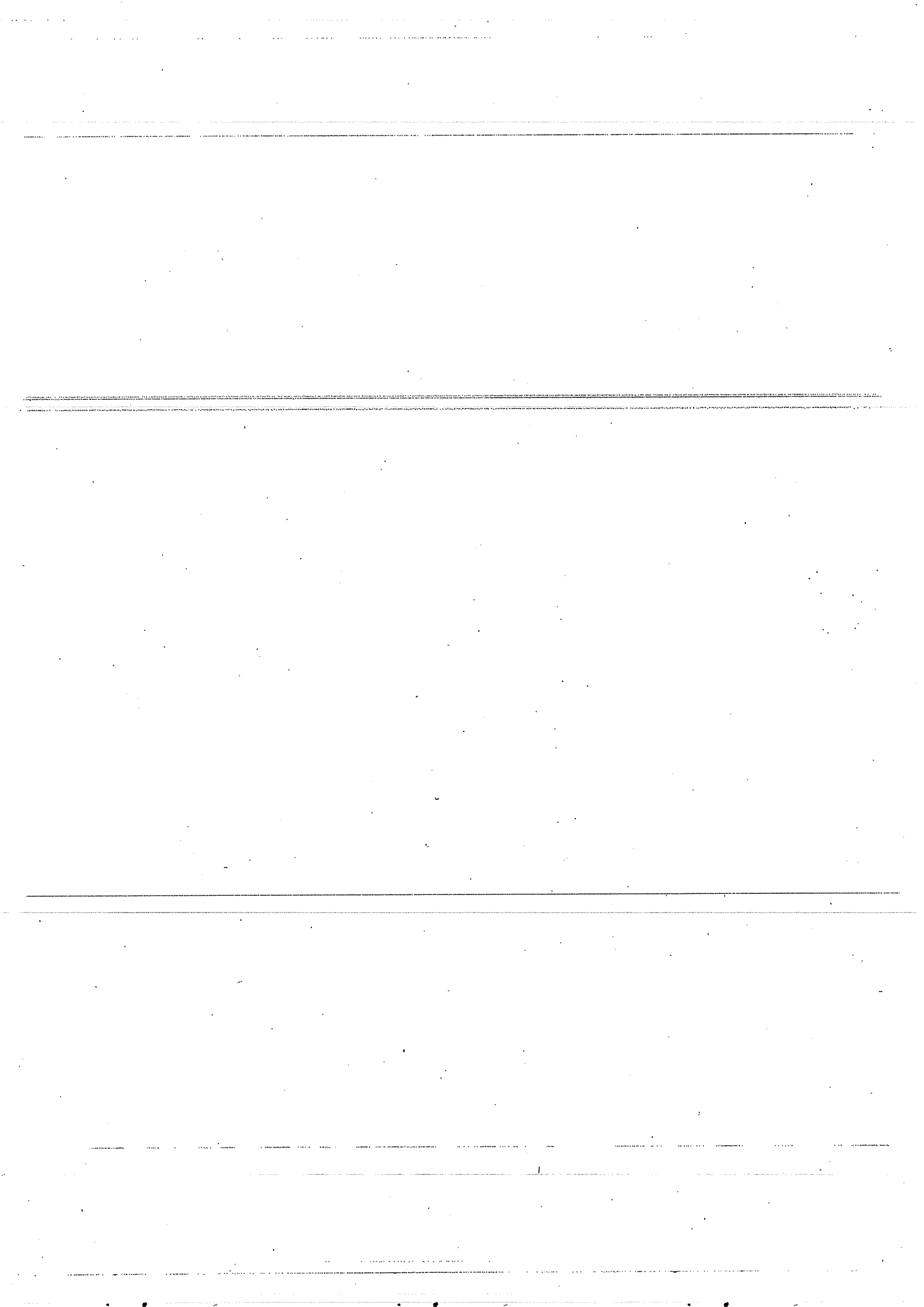
Claims between £125,000 and £500,000

Claim	Value £	Amended
Disabled facilities	262,000	No



Appendix 2 Action Plan

Recommendations	
Recommendation 1	
Parameters	
<ul style="list-style-type: none"> ■ Ensure these are entered correctly as soon as possible in the year ■ Ensure that this is independently checked. ■ Maintain documentary evidence of this - so that further audit queries can be dealt with efficiently and quickly. 	
Responsibility	Benefit Service Manager
Priority	High
Date	March
Comments	The year end process on the Northgate system will be complete by the 3/4th of March. The parameters are hard coded into the system. Parameters will be checked by the senior assessment officer leading on this work, subsequently checked by the Benefit Service Manager and subsequently sample checked by the Chief officer: Housing against the Circular HB/CTB A26/2010
Recommendation 2	
Take urgent action to reduce the level of errors found in classifying expenditure. Carry out staff training and stress the importance of coding expenditure correctly to staff, particularly overpayments. Carry out test checking of cases to assess progress made and any further action including training needs.	
Responsibility	Benefit Assessment Manager
Priority	High
Date	March 2011
Comments	All assessment staff will be advised in writing by end of February of expenditure classification requirements. Training will take place on the 3/4 March to reinforce requirements. Sample checking of 10% Assessment Officer work will take place each month and issues identified fed back via the supervision process so that support and training is offered where required; at least 5% new claims and 5% Change of Circumstances.
Recommendation 3	
Review non HRA cases in advance of certification work to ensure they are correctly classified. Ensure there is evidence on file to support their classification.	
Responsibility	Control & System Support Officer
Audit Commission	Certification of claims and returns - annual report



Priority	Medium
Date	March 2011
Comments	<p>All existing Non-HRA expenditure has been reviewed and classified in line with the appropriate code on the Northgate system.</p> <p>All non-HRA rent rebate expenditure cases will be reviewed on a monthly basis to ensure correct classification.</p> <p>Housing Options Service to review notification of temporary accommodation to Benefit Service in line with subsidy classifications via a proforma in line with expenditure classification from beginning of March to ensure consistency of approach.</p>

Recommendation 4

Take urgent action to reduce the level of errors found calculating earnings. Carry out test checking of cases to assess progress made and any further action including training needs.

Responsibility	Benefit Assessment Manager
Priority	High
Date	
Comments	Staff have received refresher training in October 2010. Checking of work undertaken monthly and issues fed back via supervision process.

Recommendation 5

Ensure there is a clear audit trail on the benefits system of how assessors have reached judgements on benefits entitlement.

Responsibility	Benefit Assessment Manager
Priority	High
Date	
Comments	Staff have been advised of need to provide full breakdown on reasons for benefit entitlement and to ensure this is adequately reflected in notebooks. Sample checking to be undertaken on earned income benefit claims on a monthly basis.

Recommendation 6

Carry out risk based checking of claims to assess if benefit entitlement has been correctly calculated.

Responsibility	Benefit Assessment Manager
Priority	High
Date	
Comments	Checking of all benefit assessment will be undertaken for all new assessment staff for their probation period of six months. All payments of over £ 1,000 will be checked before payment.

Recommendation 7

Ensure that benefit managers are able to interrogate the Northgate system adequately for their own

management purposes and also to allow errors found as part of certification testing to be quantified.

Responsibility	Benefit Service Manager
Priority	Medium
Date	March 2011
Comments	All managers have received training on the new Northgate system to enable interrogation. Additional support and training will be required for the Control & System Support Officer when she returns from maternity leave and this has already been arranged.

Recommendation 8

Allocate staff of sufficient skill and experience early in the certification work to ensure that queries are dealt with adequately and promptly, and to carry out 40 plus testing to the required standard.

Responsibility	Benefit Service Manager
Priority	High
Date	
Comments	The timetable for the certification work has been provided by the auditors. Staff with appropriate skills will be available to support the auditors at the appropriate times. Initial work and support has already been agreed.

Recommendation 9

The Council should establish an action plan with clear timescales and responsibilities to:

- address the findings of this report;
- ensure there is a clear audit trail for the entries for the 2010/11 claim; and
- ensure there is a timetable to meet the certification deadline

Responsibility	
Priority	High
Date	April 2011
Comments	The response to the recommendations is set out above. A plan of support for the Audit Commission has been agreed to support the audit based on their draft timetable

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