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# Certification of grants and returns 2012/13 **(REVISED DRAFT)**

Nottingham City Council

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in connection with this  
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|                             |  |             |
|-----------------------------|--|-------------|
| Introduction and background | <p><b>This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.</b></p> <ul style="list-style-type: none"> <li>For 2012/13 we certified four returns with a total value of £320m (including £181m for the Housing and Council Tax Benefit return).</li> </ul>   | -           |
| Certification results       | <p><b>We issued an unqualified certificate for one return but qualifications were necessary in three cases.</b></p> <ul style="list-style-type: none"> <li>Housing and Council Tax Benefit return due to high levels of Council Tax benefit overpayment and Local Housing Allowance rate errors.</li> <li>Pooling of Housing Capital Receipts return due to uncertainty over the level of available capital allowances stated in the return.</li> <li>Teachers' Pensions return due to lack of evidence to support refund payments included in return.</li> <li>All these returns except for the Pooling of Housing Capital Receipts return had qualified certificates in 2011/12. Overall, the number of qualified certificates is unchanged from 2011/12 as the National Non Domestic Rates return was qualified last year.</li> </ul>   | Pages 3 – 5 |
| Audit adjustments           | <p><b>Adjustments were necessary to one of the Council's grants and returns as a result of our certification work this year.</b></p> <ul style="list-style-type: none"> <li>Only one return required adjustments compared with two last year (2011/12).</li> <li>Housing and Council Tax Benefit return was adjusted by £790 for a small number of minor errors. No adjustments required to this return last year.</li> </ul>  | Pages 3 – 5 |
| The Council's arrangements  | <p><b>The Council has adequate arrangements for preparing its grants and returns and supporting our certification work but some improvements are required.</b></p> <ul style="list-style-type: none"> <li>Certification of the Housing and Council Tax Benefit return was delayed this year. The return this year needed additional case testing. This led to delays in the completion of our work by the 30 November 2013 certification deadline. With continuing support from the Council we certified the return on 20 December 2013.</li> <li>Looking ahead, the Council would benefit from having a timetable for the detailed case testing it undertakes. Officers have agreed that a detailed forward plan for 2013/14 will be established linked to our certification requirements.</li> </ul>   | Pages 3 – 5 |
| Fees                        | <p><b>The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and set an indicative fee for the Council of £23,450. Our actual fee (estimated) for the certification of grants and returns was £22,270. The difference was due to less work than planned being carried out with a £1,180 fee reduction proposed (subject to approval by the Audit Commission).</b></p> <ul style="list-style-type: none"> <li>The actual fee (estimated) charged this year (£22,270) is significantly lower than last year (£50,542) mainly due to the change in fee regime and we have changed our approach to accommodate this.</li> <li>We certified four returns this year compared with six last year. Certification of the Housing Subsidy and School Centred Initial Teacher Training returns undertaken in previous years was not required this year.</li> </ul> | Page 6      |

Overall, we certified four grants and returns:

- one was unqualified with no amendment;
- two required a qualification to our certificate; and
- one required both a qualification to our certificate and some amendments to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either certification amendments were made as a result of our work or where we had to qualify our certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

|                                     | Comments overleaf | Qualified certificate | Significant adjustment | Minor adjustment | Unqualified certificate |
|-------------------------------------|-------------------|-----------------------|------------------------|------------------|-------------------------|
| Housing and Council Tax Benefit     | 1                 |                       |                        |                  |                         |
| Pooling of Housing Capital Receipts | 2                 |                       |                        |                  |                         |
| National Non Domestic Rates return  |                   |                       |                        |                  |                         |
| Teachers' Pensions return           | 3                 |                       |                        |                  |                         |
|                                     |                   | 3                     | 0                      | 1                | 1                       |

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

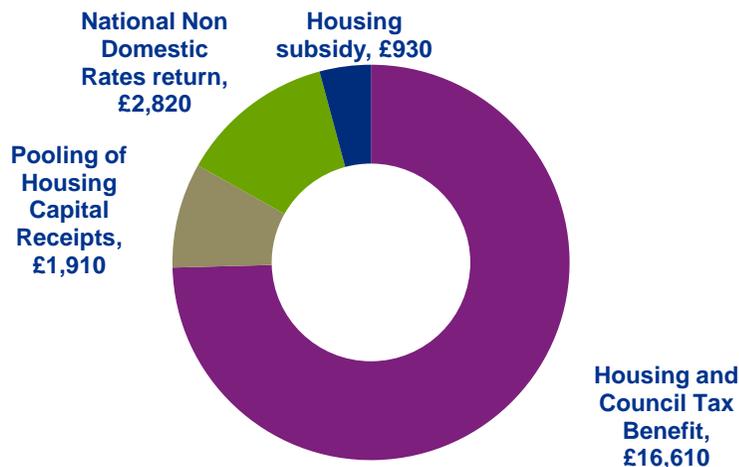
| Ref | Summary observations   | Amendment |
|-----|--|-----------|
| 1   | <p><b>Housing and Council Tax Benefit</b></p> <ul style="list-style-type: none"> <li>■ Extensive further testing was required to cover 12 different forms of error across the four main benefit types (non-HRA rent rebate; HRA rent rebate; rent allowance; council tax benefit). These errors were identified either as part of our initial testing or based on our knowledge from certification of the 2011/12 return.</li> <li>■ The Council had completed all the initial testing required by the 30 November 2013 certification deadline, however, at that date further testing was in progress. This delayed the completion of our work with certification of the return on 20 December 2013.</li> <li>■ Our qualification letter to the Department of Work and Pensions (DWP) reported 11 different error types across three of the main benefit types (HRA rent rebate; rent allowance; council tax benefit). Areas with the highest volume of assessment errors were: <ul style="list-style-type: none"> <li>■ Benefit overpayment errors - 18 cases (27 errors).</li> <li>■ Use of incorrect Statutory Maternity Pay rates - 10 cases (20 errors).</li> <li>■ Application of incorrect tax credits - 8 cases (16 errors).</li> </ul> </li> <li>■ We noted in our 2011/12 certification report a continuing high level of benefit overpayment errors linked to council tax benefit. However, the estimated error based on our sample testing for this specific error type continues to fall being £84,700 this year (2011/12: £101,500).</li> <li>■ Overall, the estimated error (and potential claw back of funding) in the return increased significantly to over £2.5m compared with £0.8m in 2011/12. Over £1.7m of this estimated error related to the use of incorrect Local Housing Allowance (LHA) rates for four rent allowance assessment cases we reviewed. Errors arise due to the scale and complexity of individual claims covered by the return and can significantly affect the overall estimated error in the return.</li> <li>■ Our testing also found isolated minor errors in the assessment of three cases as follows: <ul style="list-style-type: none"> <li>■ Council Tax Benefit - liability paid at 100% rather than 50% in error (£729).</li> <li>■ Rent Allowance - incorrect figure used for claimant's rent (marina mooring fees and craft licence) (£44).</li> <li>■ Rent Allowance – incorrect classification of benefit overpayment in return as a payment on account (£17).</li> </ul> </li> <li>■ The overall impact of these errors was to reduce the total subsidy claimed by £790. The Council's previous auditor noted no such errors in 2011/12.</li> </ul> | - £790    |

| Ref | Summary observations  | Amendment |
|-----|---|-----------|
| 2   | <p><b>Pooling of Housing Capital Receipts</b></p> <ul style="list-style-type: none"> <li>■ Our review found that the Council's basis for calculating available capital allowances at 31 March 2012 stated in the return was unclear.</li> <li>■ The return included £26.620m of brought forward capital allowances in its return. Supporting working papers provided by the Council estimated the brought forward capital allowances at £127.565m based on cumulative capital receipts from 2007/08. We did not review this estimate as it was outside the scope of our certification work.</li> <li>■ Our review found that capital allowances included in the return were based on 2011/12 capital receipts only. The Council provided a reconciliation and supporting evidence confirming that the £26.620m was based on 2011/12 capital receipts only.</li> <li>■ We reported the uncertainty over the basis of calculating capital allowances in our qualification letter to the Department for Communities and Local Government. The value of available capital allowances could be understated and therefore not utilised in future although this would only be the case if capital receipts increased significantly from their current level. This is a new qualification issue for 2012/13.</li> </ul> | None      |
| 3   | <p><b>Teachers' Pensions return</b></p> <ul style="list-style-type: none"> <li>■ Our testing found a refund payment of £9,375 classified within the return as a short term pension payment. The Council agreed this error and we certified a replacement return including corrected amounts for short term pensions and refunds. This had no effect on the overall balance (final adjustment refund) due to the Council from Teachers' Pensions.</li> <li>■ The Council was unable to provide us by the certification deadline with evidence to support £32,672 of refunds included in the return. Transfer of the Council's payroll (including teachers) to the new shared service provider (East Midlands Shared Services) was stated as the reason for delays in providing evidence. We reported the lack of evidence in our qualification letter to Teachers' Pensions.</li> <li>■ Both qualification issues are new for 2012/13.</li> </ul>  | None      |

Our overall fee for the certification of grants and returns has been contained within the original estimate.

The actual fee is estimated to be £1,180 less than the indicative fee as we carried out less work than planned. This reduction in fee is subject to confirmation by the Audit Commission.

Breakdown of certification fees 2012/13



| Breakdown of fee by grant/return        |               |               |
|---|---------------|---------------|
|   | 2012/13 (£)   | 2011/12 (£)   |
|   | (estimated)   | (actual)      |
| Housing and Council Tax Benefit         | 16,610        | 34,880        |
| Pooling of Housing Capital Receipts     | 1,910         | 1,926         |
| National Non Domestic Rates return      | 2,820         | 3,340         |
| Teachers' Pensions return               | 930           | 8,010         |
| School centred initial teacher training | -             | 747           |
| Housing subsidy                         | -             | 1,639         |
| <b>Total fee</b>                        | <b>22,270</b> | <b>50,542</b> |

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £23,450. Based on the actual work we carried out we estimate that the actual fee charged will be lower than the indicative fee by £1,180. The reason for the estimated fee being less than the indicative fee was the change in requirement to no longer certify the School Centred Initial Teacher Training grant originally included in the indicative fee.

Of the above fee, a fee reduction of £1,180 is still subject to confirmation by the Audit Commission, and so our fee information is presented as 'estimated' rather than final.

In order to accommodate the reduced fee regime we adapted our approach including working with the Council to increase the level of testing carried out by the Council to support our work. This worked reasonably well but we have discussed ways of improving this including recommending that the Council puts a timetable in place for the detailed testing of Housing and Council Tax benefit cases it undertakes to support our certification work. This should help prevent any delays in certifying returns as well as minimise certification fees in the future.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

### Priority rating for recommendations

|  |   |   |
|--|---|---|
| <p><b>1</b> Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p> | <p><b>2</b> Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> | <p><b>3</b> Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> |
|--|---|---|

| Issue  | Implication   | Recommendation   | Priority        | Comment  | Responsible officer and target date                                       |
|--|---|--|-----------------|--|---|
| <b>Housing and Council Tax Benefit</b>   |   |  |                 |  |   |
| <p><b>Certification delay</b></p> <p>Council did not complete all testing required in time to meet 30 November 2013 deadline set by the DWP.</p> | <p>Possible delays and penalties in the payment of future Housing and Council Tax Benefit grant by the DWP.</p> | <p><b>1</b> Put in place a timetable for completion of both initial and further testing required to support the certification of future Housing and Council Tax Benefit returns to meet certification deadlines.</p> | <p><b>1</b></p> | <p>Agreed. The Council did complete all of the initial testing for the subsidy claim . Further testing and 40+ sampling identified by KPMG condensed the time available for extended checks to be completed.</p> | <p>Head of Revenues, Benefits and Welfare Rights<br/>By 31 March 2014</p> |

| Issue  | Implication   | Recommendation   | Priority | Comment   | Responsible officer and target date   |
|--|---|--|----------|---|---|
| <b>Housing and Council Tax Benefit (continued)</b>   |   |  |          |   |   |
| <p><b>Benefit overpayment errors</b></p> <p>High volume of errors for Council Tax Benefit assessments.</p>   | <p>Risk of increasing level of error in future Housing and Council Tax Benefit returns.</p> | <p>2</p> <p>Identify the reasons for Council Tax benefit overpayments and take action to address these.</p>  | <p>2</p> | <p>For 2013/14 Council Tax Benefit (CTB) is no longer a feature of subsidy.</p> <p>This is because National CTB is abolished and Local Authorities are required to introduce local Council Tax Reduction (CTR) schemes.</p> <p>Therefore any expenditure incurred is not covered by subsidy.</p> <p>The service will agree scope with Internal Audit for CTR controls in this area.</p> | -   |
| <p><b>Local Housing Allowance (LHA) errors</b></p> <p>Use of incorrect LHA rates for Rent Allowance assessments significantly increased estimated in 2012/13 return.</p> | <p>Risk of increasing level of error in future Housing and Council Tax Benefit returns.</p> | <p>3</p> <p>Carry out a rolling review of claimant assessments for rent allowance that include LHA to confirm accuracy of rates used.</p> <p>For future assessments, strengthen checks on LHA rates to confirm their accuracy.</p> | <p>2</p> | <p>Agreed.</p> <p>Part of routine quality assurance checks including:</p> <ul style="list-style-type: none"> <li>▪ High value payment checks;</li> <li>▪ Home visits for all payments; and</li> <li>▪ Quality assurance checks through Team Leaders.</li> </ul>   | <p>Revenues &amp; Benefits Business Support Manager</p> <p>By 31 May 2014</p> |

| Issue  | Implication  | Recommendation | Priority   | Comment   | Responsible officer and target date                                    |
|--|--|----------------|--|---|--|
| <b>Pooling of Housing Capital Receipts</b>   |  |                |  |   |  |
| <p><b>Available capital allowances</b></p> <p>Basis for the calculation of capital allowances available to the Council is unclear.</p>                       | <p>Allowances available to the Council may be understated.</p>   | 4              | Resolve uncertainty reported in our 2012/13 qualification letter.              | <p>2</p> <p>Agreed.<br/>In dialogue with DCLG to clarify capital allowance level.</p>   | <p>Jim Driver<br/>By 31 March 2014</p>                                 |
| <b>Teachers' Pensions</b>  |  |                |  |   |  |
| <p><b>Evidence</b></p> <p>Council unable to provide evidence by the certification deadline to support the refunds figure included in the 2012/13 return.</p> | <p>Amounts included in future returns for refunds may be incorrect unless supporting evidence is available.</p> <p>Risk of qualified certificates being given on future returns.</p> | 5              | Ensure evidence to support refunds is available when compiling future returns. | <p>3</p> <p>Agreed.<br/>The missing evidence arose as a result of the transfer of the service to EMSS.<br/>Responsibility for completing the return and providing working papers has now been fully transferred to EMSS and a responsible officer identified.<br/>EMSS has been made aware of the requirements.</p> | <p>Senior Finance Manager (Financial Reporting)<br/>By 31 May 2014</p> |



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