



Accountants &  
business advisers

## **Epping Forest District Council**

### **Grant Claim Certification for the year ended 31 March 2009**

January 2010

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### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Statement of Responsibilities of Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

## 1 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2009. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.
- 1.2 After completion of the tests contained within the Certification Instruction the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.
- 1.3 The Housing and council tax benefit subsidy audit is an integral part of the Use of Resources assessment in considering the Council's data quality arrangements under the Audit Commission's COUNT principle (collect once use numerous times). The results of the integrated benefits work also contribute to the Audit Commission's inspection risk assessment for benefits services. Sample sizes and methodology for this work are prescribed by the Audit Commission.
- 1.4 The Audit Commission's September 2009 *Review of Arrangements for Certifying Claims and Returns* recommended that the findings from grant certification work be taken into account in the use of resources assessment. The guidance for key line of enquiry (KLOE) 2.4 which focuses on risks and internal control has been updated to reflect this and evidence from certification work may also be relevant to KLOE 1.1(financial planning), 1.3 (financial reporting) and 2.2 (data quality). Consequently the outcomes of the 2008/09 certification work, included within this report, will inform the use of resources assessment and Value for Money conclusion for 2009/10.

## 2 Summary of certification

- 2.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2009.

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on subsidy £
Pooling of housing capital receipts	1,049,019	Unqualified	1	652
Housing and council tax benefit subsidy	35,095,628	Qualified	67	48,678
Disabled facilities grant	200,174	Unqualified	0	0
National non domestic rates return	29,211,954	Unqualified	2	57,656
HRA subsidy (2008/09)	10,842,203	Unqualified	0	0
HRA subsidy base data return (2010/11)	N/A*	Qualified	3	N/A*
<b>Total for 2008/09</b>	<b>76,398,978</b>	<b>2 Qualified</b>	<b>73</b>	<b>106,986</b>
<b>Total for 2007/08</b>	<b>73,445,461</b>	<b>2 Qualified</b>	<b>59</b>	<b>479,647</b>

\*N/A as claim does not give rise to grant payment. This claim certifies property numbers upon which subsidy for future years is calculated and no associated monetary value is recorded in the claim.

## Detailed findings

- 2.2 There were no matters arising from the audit of the disabled facilities grant claim nor the HRA subsidy (2008/09) claim. This is an improvement on the previous year's audit results.
- 2.3 Although four of the six claims required amendment, an improvement from prior year was also seen in the preparation of these claims with a lower number of amendments identified in the majority of cases. In particular the working papers for the national non domestic rates return were well prepared and the file of good standard. Nevertheless, additional testing had to be undertaken on these claims and additional enquiries made in order to resolve issues identified and make appropriate corrections to claims.
- 2.4 Two of the six claims audited, the housing and council tax benefit subsidy and the HRA subsidy base data return 2010/11, were qualified due to issues relating to non compliance with the Certification Instruction and, therefore, the requirements of the grant paying body.

### *Pooling of housing capital receipts claim*

- 2.5 The adjustment made to this claim related to administrative costs. In accordance with the Certification Instruction CFB06, where administrative costs are incurred but no sale results, the costs cannot be claimed as a deduction. Some costs were identified during our testing that did not result in a sale and therefore should not have been included in the form.

### *National non domestic rates return*

- 2.6 Two amendments were made to this return. The first related to an incorrect reversal of an amendment made to the prior year claim, and the second related to a figure being entered into the return as a positive and not a negative.

### *Housing and council tax benefit subsidy claim*

- 2.7 There were a large number of amendments made to the housing and council tax benefit subsidy claim. The majority of these amendments were due to misclassification of current year excess benefit paid as prior year excess benefit paid. This occurred due to a system error resulting from the changeover of the housing and council tax benefit IT system from ORBIS to Academy, which was effected mid-year.
- 2.8 This change of IT system also impacted on the level of testing required to audit the housing and council tax benefit subsidy claim, which was a composite claim compiled from the two systems, as assurance needed to be gained over the figures provided by each system and the migration of data between systems also had to be reviewed.
- 2.9 In addition to the amendments made to correct quantifiable errors, the claim was qualified due to:
- inaccurate classification of excess benefit paid between the various designated categories, over and above that identified in paragraph 2.7, which could not be quantified and corrected.
  - benefit expenditure within the Academy housing and council tax benefit system (operational for the last three months of the year) not being fully reconciled to the ledger, housing rents and council tax systems. It should be noted, however, that the equivalent reconciliations of benefit expenditure within the ORBIS system for the first nine months of the year were completed and found to be satisfactory.
  - extended benefit payments relating to 2007/08 being incorrectly included in the 2008/09 subsidy claim. This is a known issue with the ORBIS Housing Benefits system, is not quantifiable without significant additional audit testing being completed, and also formed part of the basis of qualification of the previous year's claim.

- 2.10 In accordance with the directions of Certification Instruction BEN01, the technical detail of the reasons for qualification were set out in a qualification letter to the Department for Work and Pensions, which has been included for information as Appendix A to this report.
- 2.11 The testing on an additional sample of 120 cases selected for “40+” testing under the Audit Commission’s prescribed mechanism for responding to, and extrapolating the results of, failures in the original sample of 40 benefit cases tested, was completed by the Council’s own staff. We reviewed this work and undertook re-performance testing on 20% of the sample tested by the Council. Our re-performance testing was satisfactory and we were able to rely on the Council’s work in forming and reporting our conclusions.

### ***HRA subsidy base data return***

- 2.12 As in the prior year, we were unable to evidence that council dwellings are classified in accordance with the requirements of Certification Instruction HOU02 because the Council does not hold comprehensive survey records or detailed property holding records.
- 2.13 Also, due to incomplete records, we were unable to complete our detailed testing to verify the internal floor area of properties in order to evidence their classification within the claim form. The Council are in the process of collating this information as part of their work to support the award of Energy Performance Certificates to individual council dwellings.
- 2.14 Issues were also identified with locating evidence to support the age of the properties and to support the total number of storeys within a block in which the Council’s flats are situated.
- 2.15 Consequently, a qualification letter was issued in respect of the HRA subsidy base data return (2010/11), which has been included for information as Appendix B to this report.

## **3 Fees charged**

- 3.1 The fees charged for each grant claim audited for the year ending 31 March 2009 were as follows:

<b>Claim</b>	<b>Fee for the year ended 31 March 2009</b>	<b>Fee for the year ended 31 March 2008</b>
Pooling of housing capital receipts	2,232	2,120
Housing and council tax benefit subsidy	42,975	39,585
Disabled facilities grant	2,012	1,915
National non domestic rates return	4,771	8,970
HRA subsidy (2008/09)	3,943	3,740
HRA subsidy base data return (2010/11)	5,168	4,790
Grants report	765	_*
<b>TOTAL</b>	<b>61,866</b>	<b>61,120</b>

\* Not mandated nor charged as section 28 work last year.

- 3.2 This Grants Report is mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared. The cost of reporting is now charged under section 28 of the Audit Commission Act 1998 (the arrangements under which we certify grant claims and returns as an agent of the Audit Commission) and is calculated based upon the number of hours taken to draft, agree and finalise the report.

## 4 Conclusions

- 4.1 There is scope for the Council to improve its arrangements for the preparation of grant claims and supporting working papers for audit.
- 4.2 A detailed Action Plan to secure improvement to arrangements in future years has been agreed with officers and is included in the Appendix B to this report.

## Appendix A – Housing and council tax subsidy claim qualification letter

7 November 2009

Dear Sir/Madam

**Epping Forest District Council**  
**Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2009 (Form MPF720A)**  
**Qualification Letter referred to in the Auditor's Certificate dated 27 November 2009**

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 Council.

The extrapolated values detailed in the Appendix are not cumulative and treat each error identified in isolation. No amendments have been made to the claim for the issues raised in this qualification letter.

All other matters arising from the audit of the claim have been corrected.

Yours faithfully

**Richard S Bint**  
**Partner**  
**For and on behalf of PKF (UK) LLP**

## Reconciliation of housing and council tax benefit expenditure

**Cell 011: Rent Rebates (Tenants of Non HRA Properties) Total Expenditure (Benefit Granted): £21,690**

**Cell 055: Rent Rebates (Tenants of HRA Properties) Total Expenditure (Benefit Granted): £2,861,469**

**Cell 094: Rent Allowances Total Expenditure (Benefit Granted): £2,790,452**

**Cell 142: Council Tax Benefit Total Expenditure (Benefit Granted): £1,653,840**

The Council implemented the Academy system in January 2009, to replace the ORBIS system previously operated. The Council has been able to fully reconcile benefit expenditure reported by the ORBIS system for the first 9 months of the year to the council tax, housing rents and creditor payments systems. This has been audited and was found to be satisfactory. However, to date the Council have been unable to complete the same reconciliations for the Academy system for the last 3 months of the year and these have not, therefore, been available for audit. The figures set out above are for the amounts included in cells 011, 055, 094 and 142 in respect of the unreconciled Academy expenditure only.

We understand that the Council expect to have completed the reconciliation by the end of December.

### **Cell 143: Council Tax benefit – Extended Payments**

**Cell 143: cell total: £15,946**

**Cell 143: cell population: 210**

**Headline cell 142: £8,535,885**

Our detailed testing identified one case where extended payment expenditure had been included in this cell when it related to a benefit period in 2007/08. Further enquiries identified that the Council had, in 2008/09, corrected a misclassification of benefit paid in 2007/08 that had not been classified as an extended payment. This resulted in the ORBIS software picking up the correcting entries in the 2008/09 claim in cell 143.

Further investigation identified that the same amounts had been reversed out by netting them off the expenditure included in cell 144. Consequently we are satisfied that there is no effect on subsidy due as the correcting entries net to zero, however, cell 143 is overstated by £55.97 and cell 144 understated by the same amount in respect of this case.

No extended testing or extrapolation in respect of this error has been performed as the Council have indicated that they are unable to provide detailed information of the cases that were corrected in this way. As a result the target population cannot be isolated and any further sample selected would be unlikely to be representative of the whole population and extrapolation would not be considered meaningful.

Although we only identified one case with this error, this is the same issue that was identified in our 2007/08 Qualification Letter and we are aware that ORBIS has not been rectified since the previous audit. Consequently we are unable to conclude with certainty that no other such instances exist within the claim, hence this qualification of our certificate. However, going forward, we are reasonably assured that this issue will not reoccur as it was specific to the ORBIS system which has now been replaced by Academy.



**Cell 066: Rent Rebates - Eligible overpayments (current year)****Cell 066: cell total: £125,879****Cell 066: cell population: 1,013****Headline cell 055: £13,184,531**

This cell was qualified in 2007/08 and we did not consider that we could gain enough assurance over work completed from our standard testing of a random sample of 20 rent rebate cases to satisfy ourselves that the issue of overpayment misclassification for this cell had been corrected in 2008/09. Consequently we completed 40+ testing on this cell with respect to checking the classification of the overpayment only. The results of the testing found that 6 cases out of the sample of 40 were found to be incorrectly classified as eligible overpayments, all of which should have been classified as LA error.

The results of testing of these 40 cases are set out in the table below:

Testing and sample size	Cell total [CT]	Sample error [SE]	Sample value [SV]	Percentage error rate [SE/SV]	Cell adjustment [CT x (SE/SV)]	Revised cell total cell adjustment applied
Random sample – 40 eligible overpayment cases	£125,879	£587	£7,973	7.36%	£9,265	£116,614

Testing identified that the Council has been misclassifying LA error overpayments as eligible overpayments. As a result eligible overpayments in cell 066 are overstated and LA error overpayments in cell 064 are correspondingly understated.

There is no impact on the headline cell as the error relates to the classification of total expenditure (Benefit Granted) for subsidy. There is an extrapolated impact of £9,265 in local authority error subsidy, cell 207S.

The value of the errors found range from £0.12 to £249 and the benefit period ranges from 7 days to 49 days. Similar findings have been included in previous qualification letters.

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.

**Cell 148: Council Tax – Eligible overpayments (current year)****Cell 148: cell total: £115,952****Cell 148: cell population: 2,050****Headline cell 142: £8,535,885**

This cell was qualified in 2007/08 and we did not consider that we could gain enough assurance over work completed from our standard testing of a random sample of 20 council tax cases to satisfy ourselves that the issue of overpayment misclassification for this cell had been corrected in 2008/09. Consequently we completed 40+ testing on this cell with respect to checking the classification of the overpayment only. The results of the testing found that 7 cases out of the sample of 40 were found to be incorrectly classified as eligible overpayments and should have been classified as either LA error or technical excess benefit.

The results of testing of these 40 cases are set out in the table below:

Testing and sample size	Cell total [CT]	Sample error [SE]	Sample value [SV]	Percentage error rate [SE/SV]	Cell adjustment [CT (SE/SV)] x	Revised cell total cell adjustment applied
Random sample – 40 eligible overpayment cases	£115,952	£325	£2,235	14.54%	£16,859	£99,093

The sample identified the following benefit misclassifications:

- There were 5 instances where the overpayment should have been classified as LA error and therefore cell 148 is overstated and cell 147 is understated by the same amount. The value of the sample error was £209. This equates to an extrapolation value of £11,362.
- There were 3 instances where the overpayment should have been classified as technical excess benefit and therefore cell 148 is overstated and cell 149 is understated by the same amount. The value of the sample error was £116. This equates to an extrapolation value of £6,018.

There is no impact on the headline cell as the error relates to the classification of total expenditure (Benefit Granted) for subsidy. There is an extrapolated impact of £11,362 in local authority error subsidy, cell 207S.

The value of the errors found range from £6.95 to £145.44 and the benefit period ranges from 21 days to 111 days. Similar findings have been included in previous qualification letters.

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.

## Appendix B – Housing subsidy base data return (2010/11) qualification letter

5 October 2009

Dear Ms Akeredolu

**Epping Forest District Council  
Housing Revenue Account Subsidy Base Data Return 2010/11 (Form 10B2)  
Qualification Letter referred to in the Auditor's Certificate dated 5 October 2009**

Details of the matters giving rise to my qualification of the above claim are set out below. The factual content of my qualification has been agreed with officers of the Council. No amendments have been made to the claim for the issues raised in this qualification letter.

### **Cells F001MM to F0015MM**

As in the prior years, the Council's records for supporting the analysis of dwellings between these cells are based on beacon records and not on comprehensive survey records or detailed property holding records as required by paragraphs 28 and 29 of Certification Instruction HOU02 (CI). As a result we were unable to certify the accuracy of the analysis in accordance with the CI.

The remaining detailed testing required by the CI was completed to our best ability using various sources of alternative records where available, such as maintenance records. However, it should be noted that the absence of survey information undermines the accuracy of the results of the audit testing performed.

### **Cells F001MM, F003MM to F005MM, F017MM and F019MM to F021MM**

We were unable to complete our detailed testing to verify the internal floor area of properties in order to evidence their classification within the claim form. An initial sample of eight dwellings was selected for which no internal useable floor area records could be located. Further enquiries identified that the Council do not keep records of the internal useable floor area of dwellings, although they are currently in the process of collating this information as part of their work to support the award of Energy Performance Certificates to individual council dwellings. Consequently we are unable to verify whether dwellings have been correctly classified as large or small, as required by paragraphs 42 to 44 of the CI. The claim classifications have been based on the gross external floor area notified by the District Valuer in the beacon-based valuation as at 1 April 2008.

### **Cells F001MM to F007MM, F014MM, F015MM, F017MM to F023MM, F030MM and F031MM**

Our detailed testing of a sample of eight dwellings for the accuracy of classification by age identified four dwellings where we were unable to locate sufficiently robust evidence to prove their age. No extended testing was completed as this is a known issue, for which the claim was qualified in the previous year.

### **Cells F009MM to F012MM and F025MM to F028MM**

Our initial sample of eight flats identified that we were unable to locate evidence to prove the age of one of the flats sampled. Additionally, for the eight flats sampled, the records kept by the Council only identified the storey on which the flat is situated, and not the total number of storeys within the block in which the flat is situated, so we were unable to verify the correct classification by number of storeys.

We understand that the methodology for completing the claim, including classification of properties, has not been changed and is, therefore, consistent with prior years.

Yours faithfully

**Richard Bint**  
**Partner**  
on behalf of PKF (UK) LLP

## Appendix C – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<b>Housing and council tax benefit subsidy</b>					
Excess benefit continues to be misclassified between types, resulting in misstatement of subsidy claimed.	1. Review the results of cases identified where excess benefit is classified incorrectly, both from audit reviews and any internal accuracy checks completed, to identify trends both by staff member and common error types.	High	Agreed, problem should be largely resolved by change from Orbis to Academy.	Assistant Director of Finance & ICT (Benefits)	April 2010
	2. Provided targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff.	High	Agreed, this training has been provided previously and will be repeated.	Assistant Director of Finance & ICT (Benefits)	April 2010
A number of amendments were required to the subsidy claim form to correct the same errors that were identified in 2007/08. This adversely impacts on the efficiency of the audit and results in unnecessary audit costs being incurred in the identification and correction of avoidable errors.  Some more simple errors were as a result of a lack of knowledge sharing between the finance team, that prepare the draft claim form, and the benefits team, that manage benefit data.	3. Perform targeted test checks on cells with known prior year errors to ensure those errors are not repeated in the current year.	High	Agreed, although as above prior year errors should be reduced by system change.	Assistant Director of Finance & ICT (Benefits)	May 2010
	4. Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.	High	Agreed.	Assistant Director of Finance & ICT (Benefits)	May 2010
	5. Improve the strength of communication between the Benefit team and the Finance team to ensure that there is a comprehensive understanding of matters arising, from both internal checks and formal audits, that impact on the preparation of the claim.	Medium	Agreed.	Assistant Directors of Finance & ICT (Accountancy and Benefits)	May 2010

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Benefit expenditure within the Academy housing and council tax benefit system was not fully reconciled to the ledger, housing rents and council tax systems. The absence of complete reconciliations creates fundamental uncertainty regarding the accuracy of the total expenditure within the claim, resulting in qualification.	6. Complete the reconciliation of housing and council tax benefit expenditure to the ledger, rents and council tax systems, using the spreadsheet methodology provided by Capita for the Academy system.	High	Agreed, this is underway.	Assistant Directors of Finance & ICT (Benefits and Revenues)	April 2010
<b>Pooling of housing capital receipts</b>					
Administrative costs have been included within the claim where they do not relate to a sale. Amendment to the claim was necessary to achieve compliance with the Certification Instruction, which states that only costs that relate to actual disposals are an allowable deduction in the claim.	7. Review the administrative costs that are included within the claim and ensure that all of the costs can be attributed to a sale.	Medium	A review has been completed and actual costs are now being used wherever possible.	Assistant Director of Finance & ICT (Accountancy)	April 2010
<b>Housing subsidy base data return (2010/11)</b>					
The Council's asset management records for the housing stock do not include all of the data required to facilitate accurate completion of this claim. In particular, in a number of cases there are incomplete records for property age, internal usable floor area or the number of storeys in a block of flats.  The Certification Instruction requires that the entries in the claim be based on comprehensive survey records or detailed property holding records.	8. Use the results of the work done to complete Energy Performance Certificates to inform the completion of the claim and, if certificates have not been received for all properties, apply the known internal floor areas on a beacon basis.	Medium	Agreed, this work is being undertaken by the Housing Directorate.	Assistant Director of Housing (Property)	April 2010
	9. Obtain evidence to support the number of storeys in each block of flats containing council dwellings.	Medium	Agreed, this work is being undertaken by the Housing Directorate.	Assistant Director of Housing (Property)	April 2010