

Certification of claims and returns - annual report

Nottingham City Council
Audit 2010/11



Contents

- Introduction.....3
- Summary of my 2010/11 certification work.....4
- Results of 2010/11 certification work.....7
- Summary of progress on previous recommendations10
- Summary of recommendations13
- Summary of certification fees15

Introduction

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. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

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. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

The Authority has completed all claims and returns on time and performed adequately in their completion.

My work gave rise to the amendment of five of the nine claims and returns for the year ended 31 March 2011 that the Authority was required to submit for certification. I also had to issue a qualification letter accompanying my certificate on four of the nine claims, three of which were also amended.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total value of claims and returns certified	£316,465,658
Number of claims and returns amended due to errors	5
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	4
Total cost of certification work	£51,749

Of the nine standard claims certified we placed reliance on the control environment for four which allowed us to carry out reduced levels of testing. One of these four was subject to amendment and one to both amendment and qualification. In both cases the amendment was less than 0.2 per cent of the total value of the claim. Details are set out against the relevant claim in table 2 below. For the remaining five claims we carried out the full testing required by the Certification Instruction (CI). This resulted in the amendment of a further three claims and the qualification of four claims. The value of amendments in these claims was also less than 0.2 per cent. Amendments made to two claims were minor (£3 per claim).

Housing and Council Tax Benefit (CTB) claim

The level of errors found for this year's claim was similar to 2009/10 except for those related to the classification of Council Tax benefits overpayments. My audit found that these had increased significantly from 35 per cent of the cases I reviewed in 2009/10 to 53 per cent this year. The effect of this is a potential funding claw back of £729,000 for 2010/11 (less than £100,000 in 2009/10).

I also found that there were a significant number of errors which, although not resulting in incorrect benefit or subsidy at the time, have the potential to lead to future incorrect payments and affect the level of subsidy received. Details of these errors have been reported directly to the Head of Revenues and Benefits by letter in January 2012.

Housing Base Data return

This return was qualified for the third consecutive year due to errors in the classification of properties by the authority. As this was the final year of the return the DCLG requested further information on which to base its decision on the potential degree of error in the claim and the consequent effect on the authority's self financing determination.

Sure Start claim

I am pleased to note that this year's claim was certified without qualification for the first time. This improvement was largely the result of improved record keeping and better liaison between the department and the auditor. A small amendment (£7k) was required to the claim following my audit. This was also the last year of the claim.

National Non- Domestic Rate (NNDR) return

In previous years I have placed reliance on the authority's control environment for the preparation of this return leading to a reduction in audit testing. However, more in-depth testing is needed once every three years to confirm that this reliance remains appropriate. This in-depth testing was required for the audit of your 2010/11 NNDR return.

My audit highlighted errors which led to both amendment and qualification of the return. The amendment related to one property being classified as empty when it was occupied. The qualification letter also related to this issue as a further two of a sample of 50 properties had insufficient evidence to support their classification as empty. Significant extra work was also needed to confirm that further ten properties (car parking spaces) had been correctly classified. Information required to support the classification used was not retained and had to be re-created by the authority.

Pooling of Housing Capital Receipts return

My work found that mortgage receipts had been incorrectly omitted from the return leading to a small (£4,188) amendment to the return.

I found also that administrative costs had been offset against capital receipts and that the latter were incorrectly shown as 'net' rather than 'gross'. The return was amended to include the correct figures but the amendment had no effect on the overall amount due or payable.

I also issued a qualification letter for this claim as I was unable to confirm that the penalty calculation for late payment was either appropriate or correctly calculated. I carried out significant extra work to try to resolve this issue but was unable to do so as the penalty calculation was the result of a variety of late amendments which had been made to the amounts due for two quarters of the year.

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

I relied on the control environment for some but not all claims and returns that I certified this year. Two claims required full testing this year to reconfirm this reliance. No additional claims met the criteria for reduced testing in 2010/11.

Table 2: Claims and returns above £0.5 million

Claim or return	Value of claim or return presented for certification (£'m)	Was reliance placed on the control environment?	Value of any amendments made (£'m)	Was a qualification letter issued?
Housing and council tax benefit scheme.	£160.768	Not applicable. Audit Commission mandates prescribed levels of testing to all claims for this scheme.	£0.037	Yes. Qualification letter provided to the DWP shows errors that, if extrapolated across the claim, could result in the claw back of over £0.7 million.
Pooling of housing capital receipts.	£2.649	Yes.	£0.004	Yes. The council has made various adjustments to the amounts due and paid interest on the late payment of these adjustments.

Claim or return	Value of claim or return presented for certification (£'m)	Was reliance placed on the control environment?	Value of any amendments made (£'m)	Was a qualification letter issued?
				I was unable to confirm that these interest payments were accurate or appropriate.
HRA subsidy.	£1.396	No. Extra testing required as the control environment has been relied on for the last two years.	£nil (no amendment)	No.
Housing finance base data return.	-	No. Errors found in previous years and revised claim form as this is the final year of the return.		Yes. One (out of 36) error found in classification between traditional and non-traditional dwellings and 16 (out of 34) between large and small terraced houses. Insufficient evidence was available to support the value of the contracts with the Homes and Communities Agency (HCA). No evidence was available to support tenant consultation and formal resolution to demolish 53 of 222 properties.
National non-domestic rates return.	£115.809	No. Extra testing required as the control environment has been relied on for the last two years.	£0.001	Yes. Insufficient evidence to support two of a sample of 50 properties as empty.
Teachers' pensions return.	£14.205	Yes.	<£0.001*	No.

Claim or return	Value of claim or return presented for certification (£'m)	Was reliance placed on the control environment?	Value of any amendments made (£'m)	Was a qualification letter issued?
Sure start, early years and childcare grant and aiming high for disabled children grant.	£16.755	No. Known problems over many years with repeated qualification letters issued.	£0.001	No.
Disabled facilities grant.	£0.842	Yes.	£nil (no amendment)	No.

* actual value of amendment £3

Table 3: **Claims between £0.125 million and £0.5million**

Claim or return	Value of claim or return presented for certification (£'m)	Value of any amendments made (£'m)	Qualification letter
School centred initial teacher training	£0.224	<£0.001*	No.

* actual value of amendment £3

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

Evidence from testing of grant claims in the current year indicates that recommendations made for the general management and administration of grant claims and for issues in relation to the housing base data have not yet been implemented.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Recommendation and agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Sure Start Claim Officers should ensure that requests for supporting evidence or further information receive prompt responses. Where delays are encountered early consideration should be given to applying for an extension to the audit certification deadline to allow sufficient time for the evidence to be considered and potentially prevent a qualification to the claim.	High	30 July 2011	Geoff Walker	Implemented. No issues noted in 2010/11.	No further action required.

Recommendation and agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<ul style="list-style-type: none"> ■ Remind all staff involved with this claim of their responsibilities for submission of external grants. ■ Ensure that supervisory checks on audit evidence are programmed to take place well in advance of the submission to audit. ■ Identify officers in the C&F department as key contacts to manage the audit. 					
<p>Housing Subsidy Base Data Return</p> <p>Officers should ensure that the data contained within the housing database is complete and accurate.</p> <ul style="list-style-type: none"> ■ Hold ongoing discussions with Nottingham City Homes to ensure that any changes identified from future surveys are tracked to evidence amendments to the stock data base. 	High	31 August 2011	Jim Driver	<p>Superseded.</p> <p>Council will not be required to prepare this return in future years.</p> <p>Testing this year found similar property classification errors in the housing database as in previous years.</p>	See below for recommendation.
<p>General</p> <p>Departments should ensure that the work of the individual compiling the grant claim is checked before submission for audit. This is particularly important where an individual is new to completing the grant claim.</p> <ul style="list-style-type: none"> ■ Remind all staff involved with external grant claims and returns of their responsibilities. 	High	30 June 2011	Geoff Walker	<p>Implemented.</p> <p>Relevant staff reminded of their responsibilities in July 2011.</p> <p>Supervisory checks carried out in advance of submission for audit.</p>	See below for recommendation.

Recommendation and agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<ul style="list-style-type: none"> ■ Carry out supervisory checks on audit evidence well in advance of the submission to audit. 					

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
Housing and Council Tax Benefit Take steps to understand and reduce the increasing level of: <ul style="list-style-type: none"> ■ Council Tax benefits overpayments errors found this year; and ■ other errors already reported to the Council's Head of Revenues and Benefits by letter in January 2012. 	High	Mandatory retraining for all Housing and Council Tax Benefit colleagues – with pass or fail test (if fail, required to resit).	Complete by 1st May 2012	Lisa Black
		Individual errors fed back to colleagues and included in performance appraisal assessments.	Ongoing	Lisa Black
		Detailed action plan has been developed in response to January 2012 letter.	31 January 2012	Lisa Black
Housing Subsidy Base Data return Officers should review the Council's housing database to confirm that it meets both existing and future needs. If appropriate, the Council should seek to eliminate the level of property classification errors in the database.	High	Agreed.	Ongoing	Lisa Black

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
<p>General</p> <p>Continue to strengthen corporate arrangements for the compilation of grant claims and returns audited under the Audit Commission certification regime.</p> <p>Ensure that all claims and returns are reviewed and checked by an appropriate reviewer prior to submission.</p>	High	<p>Working group set up to manage the Housing and Council Tax Benefit claims to include representative from finance.</p> <p>Improvement workshop with finance colleagues to inform review of grant claim processes.</p> <p>Issue revised procedure for reviewing grant claims.</p>	<p>29 February 2012</p> <p>28 February 2012</p> <p>31 March 2012</p>	<p>Geoff Walker</p> <p>Geoff Walker</p> <p>Geoff Walker</p>

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

Claim or return	2010/11 fee (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	25,548	39,110	Increased efficiency (authority and audit).
Pooling of housing capital receipts	2,943	1,387	Qualification letter issued for 2010/11.
HRA subsidy	2,763	1,565	Planned extra work required in 2010/11 (following our three year audit cycle) to confirm continuing reliance on control framework.
Housing finance base data return	7,985	4,825	Extra work required in 2010/11 as return will be used to determine the authority's new self-financing assessment from 1 April 2012.
National non-domestic rates return	4,326	1,639	Planned extra work required in 2010/11 (following our three year audit cycle) to confirm continuing reliance on control framework. Qualification letter issued for 2010/11.
Teachers' pensions return	1,427	2,617	Reduced testing in 2010/11 as reliance placed on control framework.

Claim or return	2010/11 fee (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Sure start, early years and childcare grant and aiming high for disabled children grant	4,551	4,099	Extra work required as final year of claim.
Disabled facilities	819	1,337	Audit efficiency.
School centred initial teacher training	1,387	622	Extra work needed covering re-certification of return after amendment.
Total	51,749	57,201	

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.

