

Certification of claims and returns - annual report

Nottingham City 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 claims that we amended or qualified.

Certification of claims

1 Nottingham City Council receives more than £600 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 that 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 ten claims with a total value of £310 million. Of these, we carried out a limited review of three claims and a full review of seven claims (paragraph 14 explains the difference). Three claims were amended, two were qualified and two were both amended and qualified. Appendix 1 sets out a full summary.

3 The fee charged for grant certification work in 2009/10 is estimated to be £68,000 (£79,937.50 for 2008/09). Additional fees may be charged if, for example, further work is requested by the grant-paying departments as a result of qualifications.

Significant findings

4 The quality of the control environment remains mixed and no additional claims met the criteria for reduced testing in 2009/10.

5 The level of errors found in the Housing and Council Tax Benefit claim has reduced considerably in comparison with previous years. The level of subsidy at risk of claw-back is much lower as a result.

6 The Housing Base Data return was qualified for errors in classification of properties for the second consecutive year.

7 The Teachers Pensions claim was certified without qualification for the first time. This was due to a change by the grant-paying department allowing reliance on their records rather than Council records, which have been historically difficult to locate.

8 Both the New Deal for Communities (NDC) and Sure Start claims needed extensive work by the auditor to gain the evidence required to certify the claims. In both cases officers were unable to provide evidence to support some aspects of the claims before the certification deadline, leading to qualification letters in both cases.

Certification fees

9 The fees charged for each claim are shown in appendix 1.

Actions

10 My findings were discussed with officers during the course of the work. Recommendations for improvement are included in Appendix 2 and will be followed up as part of my 2010/11 audit.

Background

11 The Council received over £600 million in revenue and capital grants in 2009/10 from various grant-paying departments and paid over £130 million to central government in non-domestic rates and pooled capital receipts. As this is significant to the Council's income and expenditure 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.

12 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid to or from government departments and public bodies. 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.

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

14 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 from 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

15 When assessing the control environment for a particular claim I consider:

- the complexity of the claim and the systems used to produce it;
- the value of the claim and number of transactions involved;
- the knowledge and experience of the individuals compiling the claim;
- experience of the claim certification from previous years; and
- other audit knowledge of the systems and procedures that produce the claim entries.

16 The reliability of the control environment remains mixed for the claims that I certified in 2009/10, as summarised in appendix 1. The total number of claims with an adequate control environment has not changed since last year.

17 The Department for Work and Pensions (DWP) does not allow reliance on the control environment for the Housing and Council Tax Benefit subsidy claim but requires me to undertake detailed testing of individual cases regardless of the strength of the Council's management arrangements.

18 The School Centred Initial Teacher Training (SCITT) claim fell below the £500,000 threshold for assessment of the control environment but within the threshold for limited testing in accordance with paragraph 14 above.

Specific claims

Housing and council tax benefits (HCTB)

19 The HCTB claim is the single largest claim for the Council and represents over half of the total value of claims certified in 2009/10.

20 The approach to certification agreed with the DWP involves the testing of an initial 'discovery' sample of 20 cases for each type of benefit. Further detailed testing is undertaken if any errors are found in the initial sample. Testing is also undertaken in areas where errors were found in the previous year's claims.

21 In 2009/10 this approach resulted in testing of a total of 300 cases. This level of testing requires considerable effort by both Council officers and Audit Commission staff.

22 The level of errors found has reduced compared to the previous year, indicating that effective action has been taken by the Council. The errors identified relate primarily to the income included in the calculation of entitlement and are mainly of low value and short duration. The qualification letter provided to DWP for 2009/10 shows errors that, if extrapolated across the claim, could result in a loss to the Council of £78,000. This is a considerable reduction in the extrapolated error reported in 2008/09. The DWP has yet to decide whether to recover subsidy in either year.

Teachers' Pensions

23 In prior years my audit of the Teachers' Pensions grant claim was affected by a recurring issue relating to personnel records transferred from Nottinghamshire County, which resulted in qualification of the claim. In 2009/10 we were able to rely on Teachers Pensions Agency (TPA) records and were therefore able to certify the claim without qualification.

24 My audit identified only minor errors which were amended prior to certification.

Sure Start

25 This claim is a complex combination of funding for various initiatives to improve pre-school education. It requires extensive work from the auditor to verify the allocation of income and expenditure.

26 My team experienced significant problems obtaining sufficient and timely supporting information, resulting in additional auditor time and fees to complete the work. On this occasion I was able to certify the claim within the specified deadline, but problems of this nature inevitably increase the risk of delays and possible suspension of funding to the Council.

27 My work identified an item of expenditure that was supported by evidence indicating it was for activity that had not taken place within the 2009/10 financial year. This does not satisfy grant funding conditions. Officers stated that this was an error and that the activity had in fact taken place within the financial year. They were, however, unable to provide evidence to support this before the submission deadline. This issue was reported to the grant-paying department in a qualification letter.

28 The problems experienced during the certification of this claim were reported to the relevant head of service in a letter following the completion of my work.

Recommendation

R1 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 evidence to be considered and potentially prevent a qualification to the claim.

Housing Base Data

29 This return provides the base information for calculation of the Council's housing subsidy for 2011/12. It contains information about the Council's housing stock and is derived primarily from the housing database.

30 My work in 2008/09 found that some properties had been wrongly classified and I therefore increased my testing in 2009/10. This identified similar errors in the classification of properties, indicating that no effective action has been taken on previous findings. The errors identified in 2009/10 relate to the classification of terraced properties by size. As the Council operates a beacon basis for its properties this may mean that more properties are incorrectly classified than have been identified to date. Entries for re-lets were also compiled from incorrect information.

31 Officers should ensure that the data contained within the housing database is complete and accurate at the earliest opportunity. I will review any actions taken by the department to verify the data in 2010/11. If sufficient assurance over the reliability of the data used to complete this form can be provided in future I should be able to reduce my testing leading to a lower certification fee.

Recommendation

R2 Officers should ensure that the data contained within the housing database is complete and accurate.

New Deal for Communities (NDC)

32 This is another complex claim containing the combined results of various projects to improve local communities. The claim for 2009/10 was the final claim as the scheme has now ended. The Communities and Local Government department (CLG) has therefore set final payment deadlines for expenditure on these projects.

33 My team found some errors in the compilation of the claim form, primarily inconsistencies between the various schedules, which were amended prior to certification. They also found that some projects had exceeded their project approvals. Officers stated that this was due to coding errors that allocated expenditure to the wrong project.

34 As this is the final year of the claim CLG set an end date of 30 September 2010, by which all payments were to be made. Officers obtained approval from CLG to make a final payment in October 2010. However, testing found that this payment was not made to the supplier but to an accountancy firm to hold for later payment. The payment relates to retention money on two contracts that are not due until one year after the end of the contract and will therefore not be paid over to the supplier until later in 2011. This issue was reported in a qualification letter to the CLG.

35 Work carried out by NDC's accountants found that income generated by the project in 2008/09 had not been included. This amounted to £484,632 and was included in the brought forward figure on the claim form. However, no evidence was provided to substantiate the income. Consequently, this issue was also reported in my qualification letter to CLG.

Other claims and returns

36 There were no significant issues arising from the review and testing of the other five claims and returns. Each was submitted with an unqualified certificate. Minor errors found in the Housing Subsidy and Pooling of Housing Capital Receipts return were largely due to the absence on maternity leave of the staff member who normally compiles these claims.

Recommendation

R3 Departments should ensure that the work of the individual compiling the grant claim is checked before submission for audit. This is particularly important where the individual is new to completing the grant claim.

Appendix 1 Summary of 2009/10 certified claims

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

Claim	Value £,000	Adequate control environment	Amended	Qualification letter	Fees £
Housing and council tax benefit	153,299	Not applicable	No	Yes	39,110
Pooling of Housing capital receipts	2,696	Yes	Yes	No	1,387
Sure Start	1,334	No	No	Yes	4,099
Housing Subsidy	4,299	Yes	Yes	No	1,565
Housing Base Data	N/A	No	Yes	Yes	4,825
Disabled Facilities Grant	842	Yes	No	No	1,337
NNDR	128,757	Yes	Yes	No	1,639
Teachers Pensions	15,457	No	Yes	No	2,617
New Deal for Communities	3,295	No	Yes	Yes	5,501

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

Claim	Value £,000	Amended	Qualified	Fee £
School Centred Initial Teacher Training (SCITT)	310	No	No	622

Appendix 2 Action plan

Recommendations

Recommendation 1

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 evidence to be considered and potentially prevent a qualification to the claim.

Responsibility	Geoff Walker
Priority	High
Date	30 July 2011
Comments	<ul style="list-style-type: none">■ All staff involved in this submission have been reminded of their responsibilities for submission of external grants.■ Supervisory checks on audit evidence are programmed to take place well in advance of the submission to audit.■ Officers within the C&F department have been identified as key contacts to manage the audit.

Recommendation 2

Housing Subsidy Base Data - Officers should ensure that the data contained within the housing database is complete and accurate.

Responsibility	Jim Driver
Priority	High
Date	31 August 2011
Comments	Discussions are ongoing with NCH to ensure that any changes identified from future surveys are tracked to evidence amendments to the stock data base.

Recommendation 3

General - Departments should ensure that the work of the individual compiling the grant claim is checked before submission for audit. This is particularly important where the individual is new to completing the grant claim.

Responsibility	Geoff Walker
Priority	High
Date	30 June 2011
Comments	<p>Checks do exist but clearly minor errors were still able to get through. The checks undertaken therefore need to be improved and additional training/support given to officers responsible for compiling grant claims given.</p> <ul style="list-style-type: none">■ All staff involved in this submission have been reminded of their responsibilities for submission of external grants.■ Supervisory checks on audit evidence are programmed to take place well in advance of the submission to audit.

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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