

Certification of Claims and Returns - Annual Report

City of York Council

Audit 2009/10

DRAFT

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Introduction	2
Audit approach.....	3
Main conclusions.....	4

DRAFT

Introduction

1 Under section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants or subsidies received by the Council. The Commission, rather than the appointed auditor, has the responsibility for making certification arrangements, and the auditor acts as an agent of the Commission in this respect. This is a different relationship than for the Code of Audit Practice work.

2 Good practice in the preparation of grant claims and returns is set out in the 'Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and auditors in relation to grant claims and returns', as published by the Audit Commission. This document summarises the framework under which the Audit Commission makes certification arrangements and to assist authorities by summarising the extent of their responsibilities.

3 The grant claims we certify range from complex multimillion pound schemes, to more straightforward repayments of preapproved expenditure.

4 Certification work is designed to provide assurance to the grant paying body that a grant claim is fairly stated and in accordance with specified terms and conditions. We reach a 'conclusion' on each grant claim or return and set out any matters to report to the grant paying body within a qualification letter.

5 The certification regime is outside our Code of Audit Practice responsibilities and as such the work we do is charged hourly. To minimise the cost of certification, all authorities should implement the following actions:

- Provide comprehensive working papers that fully support the grant claim or return;
- Demonstrate there is an effective control environment in place to ensure the grant claim or return was prepared in line with the relevant terms and conditions;
- Implement a robust quality assurance regime to ensure timely submission of well supported grant claims and returns.

Audit approach

6 The Audit Commission takes a risk based approach to the grant claim certification work.

7 The key features are:

- 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 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 the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required. This means the audit fees for certification work are reduced if the control environment is strong; and
- 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 grants work we carry out, placing more emphasis on the high value claims.

Main conclusions

8 Overall the Council has continued to improve its grant claim arrangements from those in 2008/09. A lower proportion of claims have been amended or qualified in 2009/10, and all submission deadlines were met by the Council.

9 The total fee charged for our certification work in 2009/10 is shown in the table below with comparatives to budgeted and previous years' fee:

Table 1: **Fee Charged**

	£
Actual Certification Fee 2008-09	54,806
Budgeted Certification Fee 2009-10	53,305
Actual Certification Fee 2009-10	49,632

10 This fee reduction has been achieved despite national increases in the daily fee rates set on a national basis by the Audit Commission. It is mainly the result of:

- improved working papers being provided by Council staff; and
- a reduction in the number of amendments required and qualifications on individual claims for 2009/10.

11 An analysis of the certification fees for the individual claims and returns, comparison to the previous year, and explanations for significant variances, are shown in appendix 1.

12 In total, 12 grant claims and returns with a total value of £142.1m were subject to audit certification in 2009/10. No reductions to subsidy entitlement were identified as a result of our work and our work has had a positive impact on the Council's financial position in the following respects:

- Additional Housing subsidy entitlement of £16,281 as a result of recalculating debt charges in accordance with certification instructions; and
- Additional testing carried out on the Council's Housing and Council Tax benefits claim to confirm that a £61,551 reduction to subsidy due to excess LA error rates was not required.

13 A summary of the claims and returns certified in 2009/10 is shown in appendix 2.

Control Environment

14 For the claims and returns with a value over £500k, where an assessment of the control environment is required, we were able to rely on it

in 3 out of 7 cases (43%). Usually, the main reasons we cannot place reliance on the control environment are:

- Previous record of amendment and/or qualification on the grant claim/return;
- Significant difficulties encountered with the audit of the claim in the previous year (for example, delays in submission, inadequate working papers);
- New or unexpected entries on the grant claim/return; and
- The inherent complexity of the grant claim/return.

15 Specifically, for the 4 claims where we could not place reliance on the control environment in 2009/10, the reasons are shown in the table below:

Table 2: **Reasons the control environment was not relied on**

CI ref	Claim Title	Reason(s)
LA01	National Non-Domestic Rates	High value complicated claim. Issues raised by Internal Audit about checking exemptions, discounts and reliefs. Significant variances in the figures compared with the previous year, and a new entry for the deferral scheme.
HOU01	Housing Subsidies and Grants	Claim is high value, complex, and requires input from multiple departments. An error was identified in 2008/09, and the claim was also qualified.
EYC02	General Sure Start Grant	Claim was submitted late and amended in 2008/09 for an overstated invoice. The form was not correctly completed in relation to capital expenditure in 2008/09.
HOU02	HRA Subsidy Base Data 2010-11	New entry on the form for early loan redemption discounts in 2009/10 that should also have been included in the previous return.

Recommendation

- R1** The Council should consider what action could be taken to improve the control environment for the claims and returns where we could not place reliance on it in 2009/10. This could include;
- Providing evidence that significant variances in cell values have been considered, fully explained, and reviewed before the claims submission; and
 - Providing explanations for any new entries on the claim form.

Submission of Claims and Returns

16 The Council submitted all of its claims and returns by the relevant deadlines in 2009/10. This is a significant improvement on the previous year, when 20% of claims were submitted late.

17 Due to the timely submission of the claims and returns by officers, we have been able to plan and undertake our work more easily around officer availability, and therefore certify all the claims by the relevant deadline.

Qualifications and Amendments

18 The number and proportion of grant claims qualified or amended has improved significantly from the previous 2 years. A comparison of the proportion of claims qualified or amended is shown in the table below.

Table 3: **Amended or qualified grant claims over the last 3 years**

	2007/08	2008/09	2009/10
% of claims amended	40	40	25
% of claims qualified or with other reporting issues	27	30	25

19 The reasons for the amendments and qualifications or other reporting issues are summarised as follows;

- National Non-Domestic Rates - As in previous years, a report was issued in relation to the return. There is an apparent inconsistency between the Certification Instruction and the guidance notes issued to local councils in connection with some non-financial data included in the claim. We are required to bring this to the Department's attention, although it has no impact on the Council's overall financial position.
- Housing and Council Tax Benefit - Amended for a rounding error and because of the incorrect application of the backdate indicator on Non-HRA Rent Rebate. These amendments had no affect on the value of the subsidy claimed. Qualified for several issues on rent allowance and council tax benefit cells, due to the extent of errors found, and because it is difficult to apply an accurate amendment where fewer than 100% of cases in a cell have been tested.
- Housing Subsidies and Grants - Amended as the calculation method applied to the early loan redemption amount was wrong, and because of a late change to the guidance about how the capital financing requirement should be calculated.
- HRA Subsidy Base data - Amended for a minor error in calculating the transitional rent figures. Qualified as the Council system for recording terraced house sizes rounds up or down to the nearest whole number. This means that 53 houses were classified as large, whereas if the exact size were used, they would be classified as small.

Recommendation

R2 Issues identified in the qualification letters and the areas amended in the previous year should be reviewed and considered when preparing the current year claim or return.

Prior year recommendations

20 The 2008/09 Certification of Claims and Returns report made four recommendations as follows;

- Officers should make us aware of any potential delays in the submission of grant claims and returns as soon as possible.
- Claims should be checked for any inconsistencies with working papers and expected entries/ budgeted outcomes prior to submission.
- The requirements of the Certification Instruction should be considered by the responsible officer to ensure that all the requirements of the specified tests have been met; and sufficient working papers can be provided to support these requirements.
- The Council should carefully consider the issues in previous years that led to amendments and qualifications being made on grant claims and returns, and whether any improvements can be made to arrangements and the associated control environment.

21 These recommendations were all accepted by management and the completed action plan was reported to the Audit and Governance Committee meeting in February 2010.

22 The improvements outlined in the previous sections of this report suggest the recommendations have been acted on during 2009/10. The challenge is now for the Council to maintain and improve on these high standards.

Appendix 1 Certification fees analysis

CI ref	Claim Title	2008/09 fee, £	2009/10 fee, £	Reason for variance
BEN01	Housing and Council Tax Benefit	29,830	26,956	Issues identified were more straightforward to resolve than in 08/09.
CFB06	Pooling of Housing Capital Receipts	1,190	858	Grant claims work was undertaken more efficiently by being completed at the same time as audit work on related assertions in the statement of accounts
LA01	National Non-Domestic Rates	5,950	3,631	Work took less time as no additional issues identified with claim in 09/10.
HOU21	Disabled Facilities Grant	425	518	Not significant
EYC02	General Sure Start Grant	3,183	4,505	Significantly increased levels of expenditure in 2009-10 so additional testing required
HOU01	Housing Subsidies and Grants	1,162	3,083	Complex amendment required, involving adjustment of the capital financing requirement
HOU02	HRA Subsidy Base Data 2010-11	3,655	3,210	No issues identified in 08/09 so level of testing adjusted in 09/10 accordingly
PEN05	Teachers Pension Return	1,169	603	2008/09 claim required amendment
RG33	Yorkshire Forward Grants (4 project claim forms certified)	4,101	5,250	4 claims in 09/10 compared to 2 claims in 08/09.

CI ref	Claim Title	2008/09 fee, £	2009/10 fee, £	Reason for variance
	General Supervision and Review	1,869	1,020	Less qualifications and amendments than in 08/09.

DRAFT

Appendix 2 Summary of 2009/10 Certified Claims and Returns

CI ref	Claim Title	Value, £	Adequate control environment	Amended	Qualified
LA01	National Non-Domestic Rates	82,193,903	No	No	Yes
BEN01	Housing and Council Tax Benefit	48,483,941	N/A - not applied to this claim	Yes	Yes
PEN05	Teachers Pension Return	10,156,169	Yes	No	No
HOU01	Housing Subsidies and Grants	-5,791,938	No	Yes	No
EYC02	General Sure Start Grant	5,411,982	No	No	No
CFB06	Pooling of Housing Capital Receipts	471,217	N/A - below £500k	No	No
HOU21	Disabled Facilities Grant	428,000	N/A - below £500k	No	No
RG33	Yorkshire Forward - Science City (New element 09/10)	279,000	N/A - below £500k over lifetime	No	No
RG33	Yorkshire Forward - Visitor Information Centre	276,868	N/A - below £500k over lifetime	No	No
RG33	Yorkshire Forward - Science City (continuing)	191,096	Yes	No	No
RG33	Yorkshire Forward - Science City 2010/11	19,372	Yes	No	No
HOU02	HRA Subsidy Base Data 2010-11	Non-financial data return only	No	Yes	Yes

Appendix 3 Action Plan

Recommendations

Recommendation 1

The Council should consider what action could be taken to improve the control environment for the claims and returns where we could not place reliance on it in 2009/10. This could include;

- Providing evidence that significant variances in cell values have been considered, fully explained, and reviewed before the claims submission; and
- Providing explanations for any new entries on the claim form.

Responsibility	All Finance Managers
Priority	Medium
Date	Ongoing
Comments	(a) Finance Managers responsible for individual claims will take into account the requirement to provide (i) evidence for variances and (ii) further explanations for amendments on claim forms. (b) The date is ongoing in reference to the different deadlines set for claim completion.

Recommendation 2

Issues identified in the qualification letters and the areas amended in the previous year should be reviewed and considered when preparing the current year claim or return.

Responsibility	All Finance Managers
Priority	Medium
Date	Ongoing
Comments	Finance Managers will review and consider claims that have been qualified or amended in previous years when preparing current year claim forms to address issues so that they do not re-occur.