

# Certification of Claims and Returns - Annual Report

Charnwood Borough Council

Audit 2008-2009

February 2010



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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

# Key messages

**Funding from government grant-paying departments is an important income stream for the Council. You need to manage claiming this income carefully and demonstrate to me that you have met the conditions which attach to these grants.**

**This report summarises the findings from the certification of 2008/09 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.**

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## Certification of claims

- 1 In 2008/09 the Council received more than £50 million funding from various grant-paying departments, and paid over £46 million to central government. The grant-paying departments attach conditions to some of these grants. You must show that you have met these conditions. If you cannot evidence this, the funding can be at risk. It is therefore important that you manage certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In 2008/09, my audit team certified six claims or returns with a gross value of over £76 million. Of these, we carried out a limited review of five claims and a full review of one claim (paragraph 10 explains the difference). We agreed amendments to three claims for errors. For three claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary of those grant claims or returns subject to the grants audit regime.

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## Significant findings

- 3 All claims and returns were well compiled. We did not detect any significant errors; matters reported to grant-paying bodies did not relate to fundamental errors or uncertainties.
- 4 This report contains one recommendation which has been discussed and agreed with officers.

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## Certification fees

- 5 The fees I charged for grant certification work in 2008/09 were £35,140. Appendix 1 shows the fees charged for each claim.

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# Background

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- 6 The Council's cash flow statement for 2008/09 shows that you received over £38 million for specific activities from grant paying departments (as well as £12 million non-specific revenue funding). In addition you contributed £43 million non domestic rates and £3.4 million negative housing subsidy to central government. As this is significant to the Council's income it is important that processes are properly managed. In particular this means:
- an adequate control environment over each claim and return; and
  - ensuring that you can evidence that you have met the conditions attached to each claim.
- 7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. In carrying out this work I act as an agent of the Commission, and I am governed by the Commission's certification instruction arrangements (written instructions from the Commission to appointed auditors on the certification of claims and returns), which I must follow.
- 8 I charge a fee to cover the full cost of certifying claims. The fee therefore depends on the amount of work required to certify each claim or return.
- 9 You are responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 10 The key features of the current arrangements are as follows.
- For claims and returns below £100,000 the Commission does not make certification arrangements and consequently auditors do not charge any fees.
  - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but we 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 (either because the control environment is inadequate or because the certification instruction does not allow auditors to take any reliance) 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 fees for certification work are reduced if the control environment is strong.

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# Findings

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### Control environment

- 11 For claims and returns over £500,000 we have been able to rely on the control environment. This means that we can carry out limited testing which in turn leads to a lower level of fees. The one exception is housing and council tax benefits, because the certification instruction requires auditors to carry out full testing.
- 12 However there is no evidence of review of working papers by senior officers or a simple comparison of entries year on year before the claims are submitted for audit. Some of the errors that we detected (typing/keying errors, and failure to follow form completion instructions) could have been identified and corrected earlier if these procedures were in place.

| Recommendation |  |
|----------------|--|
| R1             | Ensure there is evidence of review of working papers by a senior officer, and that working papers include explanations of variances. |

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### Submission of claims and returns

- 13 All claims and returns were submitted to us on time. Officers dealt with our routine queries promptly.

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### Specific claims

#### Housing and council tax benefits

- 14 The Council is able to claim subsidy from central government in respect of benefits paid to claimants.
- 15 The approach agreed with DWP is for auditors to carry out a 'discovery sample' (this year we tested 75 cases), then for officers to carry out further testing focussed on any errors found in the discovery sample.
- 16 We agreed a number of amendments to the return, and also issued a qualification letter. Benefits is a complex technical area; the existence of errors and the need for a qualification letter do not of themselves imply weaknesses in the systems.

#### Housing subsidy base data return

- 17 This return provides information to CLG to allow them to pre-set your housing subsidy entitlement for the coming financial year.

- 18** For the last three years this return has been qualified due to the lack of evidence to support the build dates for council dwellings in many instances. The reason for this is the changes of ownership of, and responsibility for, various dwellings following Local Authority restructuring which has meant that the authority does not always hold the required prime documentation to support build dates.
- 19** Your valuer is currently carrying out a comprehensive survey of properties (including age) as part of a full revaluation exercise, and future base data returns will reflect the results of this survey.

### Pooling of capital receipts

- 20** A proportion of capital receipts arising from the sale of HRA assets has to be paid to CLG, who then re-distribute receipts to those authorities with the greatest housing needs.
- 21** We reported to CLG that we could not determine whether the costs of staff time charged to the right to buy programme related specifically to the nine properties sold in the year, as the average costs per property had risen from £959 in 2006/07 to £2,153 in 2008/09. In total, administration costs deducted from sale proceeds reduced the amount payable to the national pool this year by around £18,000.

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### Certification fees

- 22** The fees charged for each claim are shown in Appendix 1. The Audit Commission carried out a national comparison exercise for 2007/08 (the latest year for which data is complete). In respect of each grant claim (except for housing benefits), they asked for explanations where:
- fees had increased or decreased by more than 10 per cent; and
  - fees were in the highest 10 per cent or lowest 10 per cent.
- 23** We were not required to provide any explanations; in other words, we have not charged fees that are unusually high or low.
- 24** The fees charged for housing and council tax benefits rose by over £5,000 due to:
- errors found leading to detailed testing of four cells this year - last year there were only two additional tests required; and
  - having to respond to late DWP queries that related to previous years.

# Appendix 1 – Summary of 2008/09 certified claims

## Claims and returns above £500,000

| Claim   | Value<br>£000 | Adequate<br>control<br>environment | Amended | Qualification<br>letter | Fee<br>charged<br>2008/09<br>£ | Fee<br>charged<br>2007/08<br>£ |
|---|---------------|------------------------------------|---------|-------------------------|--------------------------------|--------------------------------|
| Housing and council tax benefit                               | 28,291        | N/A                                | Yes     | Yes                     | 27,851                         | 22,562                         |
| National non-domestic rates (amount payable to national pool) | 43,900        | Yes                                | No      | No                      | 1,563                          | 2,100                          |
| Housing subsidy (negative subsidy payable to CLG)             | 3,366         | Yes                                | Yes     | No                      | 1,460                          | 1,666                          |
| Housing base data return 2010/11                              | N/A           | Yes                                | Yes     | Yes                     | 1,928                          | 1,360                          |

## Claims between £100,000 and £500,000

| Claim   | Value<br>£ | Amended | Qualification<br>letter | Fee charged<br>2008/09<br>£ | Fee<br>charged<br>2007/08<br>£ |
|---|------------|---------|-------------------------|-----------------------------|--------------------------------|
| Pooling of capital receipts (amount payable to national pool) | 470        | No      | Yes                     | 1,950                       | 1,169                          |
| Disabled facilities grant                                     | 299        | No      | No                      | 388                         | 307                            |

## Appendix 2 – Action Plan

| Page no. | Recommendation  | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility             | Agreed    | Comments   | Date        |
|----------|---|--|----------------------------|-----------|--|-------------|
| 5        | R1 Ensure there is evidence of review of working papers by a senior officer, and that working papers include explanations of variances. | 2  | Head of Financial Services | Partially | <p>The Housing and Council Tax Benefit and NNDR claims are now the responsibility of Capita. The onus is for them to get it right first time and they will be responsible for investigating and rectifying any errors. In addition, they are required to flag up to us any areas of concern.</p> <p>As regards the claims above and the Housing Subsidy claims these are very technical and prepared by specialist staff. A review of working papers will only provide limited reassurance as the 'devil is in the detail'. We have insufficient resources at a senior level to review these grants in any detail and there is no history of errors in their compilation. We accept the recommendation for material variances to be explained.</p> | 31 May 2010 |

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# The Audit Commission

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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.

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