

Certification of claims and returns - annual report

Thurrock Council

Audit 2011/12



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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 2011/12 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 2011/12 certification work

The improved arrangements I reported last year have not been maintained in 2011/12, with more errors in the claims submitted for audit.

I was able to complete my audit work on all 2011/12 claims on time. I issued qualification letters on three claims in 2011/12 (four in 2010/11) and amended four claims (compared with five in 2010/11). However, the number of claims requiring audit has fallen from nine in 2010/11 to just five in 2011/12, meaning that most of the claims submitted for audit required either amendment or a qualification letter, or both. Table 1 below summarises my 2011/12 certification work.

Table 1: Summary of 2011/12 certification work

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	68,794	+£49	Yes – see below
Pooling of housing capital receipts	£1,367	+£61,000 to pay to CLG because the Council omitted a land sale and repayment of discounts over £10,000 from the return.	Yes – as in previous years the Council has claimed the sum charged by Vertex as the administrative costs of disposals, but this remains fixed based on the number of disposals in place when

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Was a qualification letter issued?
			the contract started. Since then the level of disposals has fallen but the cost of administering them charged under the contract has not.
HRA subsidy	-£11,841	+£41,000 meaning a reduction in negative subsidy so less to pay to CLG, mainly because the Council had calculated the subsidy credit ceiling incorrectly.	Yes - testing a sample of loans on which the average rate of interest at cell F003CI is based identified the wrong rate was used for three in the sample of 20. Extrapolating the error would increase the average interest rate from 1.80% to 1.86%
National non-domestic rates return	97,462	-£128,000, meaning the Council had to pay less to the pool, mainly because the Council incorrectly used figures from 2010/11 instead of 2011/12 to calculate the reductions due to schedule of payments agreements at section 12 of the return.	No
Teachers' pensions return	£6,717	No	No

For the Housing Benefit claim, as in previous years, errors in the classification of overpayments were identified from our initial sample of 80 housing benefit cases. Extended testing was undertaken based on previous history on the claim on:

- Overpayments across all benefit types;

- Rent allowance local housing allowance amounts;
- Backdating of rent rebates;
- Accuracy of income figures used for council tax benefit; and
- Accuracy of pension income figures used across all benefit types.

Initial sampling also identified new errors this year, which were also subject to extended testing, on:

- accuracy of rent figures used in rent allowance calculations;
- non-dependent deduction calculation across all benefit types; and
- agreement of child tax credit and working tax credit income across all benefit types.

The Council places significant reliance on following the previous year's working papers in producing grant claims. However, there are risks associated with this. Checks are required to ensure that previous year's figures are all updated to the current year, as this led to errors on the NNDR return which could have meant the Council paying £128,000 too much to CLG. Also officers need to consider the guidance and whether items reported as zero in the previous year are still zero in the current year or whether there are items that should go in those cells. The capital receipts pooling claim had to be amended because the Council had failed to include all sales and discounts repaid in excess of £10,000 in the return, as there were none in the previous year.

Checks also need to be made to the working papers produced for the financial statements audit to ensure completeness and that the figures are updated as the financial statements change. For Housing Subsidy the Council failed to update the working papers for calculating subsidy credit ceiling correctly to ensure they were consistent with the financial statements. As a result the calculation was incorrect.

The working papers to support the Housing Subsidy return contained errors in the calculation of weighted average borrowings and interest rate. Testing also identified that the interest rates entered for three out of 20 loans tested were wrong. Poor working papers were provided by Corporate Finance to support the NNDR return and the corresponding collection fund entries within the financial statements.

Recommendations

- R1** Improve the control environment for the completion of claims by introducing a second officer review of each claim and working papers before submission to audit. This review should be evidenced and should ensure the claim is complete, agrees to underlying records, and is consistent with management knowledge and expectations. Officers should also read and follow the current guidance rather than following the previous year's working papers. This should also be evidenced on the grant claim file.

R2 Officers responsible for producing claims and returns that include figures from the financial statements should liaise with colleagues in the finance department who are responsible for completing the financial statements. This should ensure the implications for grant claims are identified and addressed and that any changes to the financial statements are also reflected in the claims and returns.

R3 Provide further training for Housing Benefit assessors on an ongoing basis. This should particularly focus on the identification of backdates, accuracy of information to support the benefit entitlement calculation and non-dependent deductions.

Summary of progress on previous recommendations

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

Progress seen in 2010/11 on working papers and quality of the claims produced deteriorated again in 2011/12. This suggests that checking procedures were ineffective. Liaison between Corporate Finance staff producing the accounts and other staff involved in preparing claims also needs improvement to ensure claims are consistent with the financial statements. Training of housing benefits assessors remains an issue.

Table 2: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Continue to monitor and check working papers produced to support grant claims, ensuring they are clear and agree to the figures in the claim and the general ledger.	High	2011/12 returns	Sean Clark	Partially implemented	The quality of working papers remains a weakness for many claims. Too many errors are still made in compiling claims, suggesting more checks should be undertaken to ensure the figures are accurate and consistent with the financial statements and officer's knowledge of events at the Council.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Provide extra training for housing benefit assessors on new developments and changes to regulations, as well as updates on existing complex issues, in particular the classification of overpayments and backdates.	High	2011/12 returns	Seraphim Zacharia	Partially implemented	Fewer errors have been identified relating to overpayments this year, although backdates remain a weakness. However, we have seen errors made in areas not identified as issues in previous years, in particular on the accuracy of rent figures, working tax credit, child tax credit and non-dependent deductions input to the claim calculations. This indicates the need for further training across all areas that are assessed on an ongoing basis, as well as the need for improved quality assurance checks.

Summary of recommendations

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

Table 3: Summary of recommendations arising from 2011/12 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R1. Improve the control environment for the completion of claims by introducing a second officer review of each claim and working papers before submission to audit. This review should be evidenced and should ensure the claim is complete, agrees to underlying records, and is consistent with management knowledge and expectations. Officers should also read and follow the current guidance rather than following the previous year's working papers. This should also be evidenced on the grant claim file.	High	Agreed. Relevant service accountant to sign off with a senior officer review.	Immediate.	Sean Clark
R2. Officers responsible for producing claims and returns that include figures from the financial statements should	High	Agreed. This largely happens but the timing of completing the financial statement and grant claims does not	Immediate	Sean Clark

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
<p>liaise with colleagues in the finance department who are responsible for completing the financial statements. This should ensure the implications for grant claims are identified and addressed and that any changes to the financial statements are also reflected in the claims and returns.</p>		<p>always align making this not always possible.</p>		
<p>R3. Provide further training for Housing Benefit assessors on an ongoing basis. This should particularly focus on the identification of backdates and accuracy of information to support the benefit entitlement calculation and non-dependent deductions.</p>	<p>Medium</p>	<p>Agreed. Quarterly refresher training will be established to address this issue</p>	<p>Immediate</p>	<p>Bola Amako</p>

Summary of certification fees

This section summarises the fees arising from my 2011/12 certification work and highlights the reasons for any significant changes in the level of fees from 2010/11.

Table 4: Summary of certification fees

Claim or return	2011/12 fee	2010/11 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£39,066.50	£40,875.50	Change not more than 10 per cent
Pooling of housing capital receipts	£793.00	£1,465.50	Qualification issue is now well known and ongoing. More reliance was able to be placed on accounts work in 2011/12.
HRA subsidy	£1,551.00	£2,285.50	The poor quality of the 2010/11 financial statements meant that additional work on the claim was required in 2010/11.
Housing finance base data return	N/A	£6,069.00	Return not required in 2011/12
National non-domestic rates return	£7,433.50	£3,233.50	The quality of working papers received from Finance was poor in 2011/12 and there were delays in responses to audit queries.

Claim or return	2011/12 fee	2010/11 fee	Reasons for changes in fee greater than +/- 10 per cent
Teachers' pensions return	£3,925.50	£3,691.00	Change not more than 10 per cent
Sure start, early years and childcare grant and aiming high for disabled children grant	N/A	£4,912.50	Return not required in 2011/12
Disabled facilities	N/A	£1,060.70	Return not required in 2011/12
Single programme	N/A	£7,650.00	Return not required in 2011/12
Reporting on claims programme	£574.00	£521.50	Change not more than 10 per cent
Total	£53,343.50	£71,764.70	

Note: The 2010/11 figure is higher than that reported last year due to additional follow up work on the housing benefits claim at the request of the Department of Work and Pensions.

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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.

