

# **Certification of claims and returns - annual report**

**Cheshire East Borough 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** Cheshire East Borough Council received £267 million funding from various grant paying departments which required certification in 2009/10.
- 2** My audit team was asked to certify seven claims. I amended two claims requiring full certification for errors. For three claims, I was unable to fully certify the claim and issued a qualification letter to the grant-paying body. I have yet to certify the Sure Start claim. I am waiting for the Council to provide additional evidence. A summary of the 2009/10 claims is set out in appendix 1.

## Significant findings

- 3** The Council has put adequate arrangements in place for the proper and accurate preparation of claims and returns. The Council's major claims, Housing & Council Tax Benefit and National Non Domestic Rates (totalling £214 million) were compiled using information from three different systems. My review of these claims found no significant issues. This represents a considerable achievement for the Council in its first year.
- 4** The Council can improve overall control arrangements by ensuring all claims are completed and submitted for certification by the specified deadlines and are supported by clear well referenced working papers.

## Certification fees

5 The fees I charged for grant certification work in 2009/10 were £77,170.

# Background

**6** The Council claims £267 million for specific activities from grant paying departments. As this is significant to the Council's income 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.

**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 Cheshire East Borough Council. 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.

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

**9** 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.

**10** Claims are certified on the following bases.

- Without qualification.
- Without qualification but with agreed amendments made by the Council.
- With qualification (with or without agreed amendments made by the Council).

# Findings

## Control environment

**11** As part of my certification of claims, I am required to make an assessment of the control environment to determine whether I can place reliance on it to reduce the level of detailed testing on individual claims. In assessing the control environment, I review the following.

- Arrangements for ensuring claims and returns are completed accurately and in accordance with the grant scheme terms and conditions.
- Internal financial control arrangements, including internal audit work on financial systems and budget monitoring and control arrangements.
- Quality of the Council's supporting working papers.
- Expertise and relevant knowledge of claim preparers, including adequacy of supervision and review.
- Cumulative knowledge of any problems associated with the compilation of individual claims.

**12** I also carry out an analytical review of claims to identify any unexpected variances and their subsequent investigation and explanation.

**13** As 2009/10 was the first year for Cheshire East Council, I was unable to place full reliance on the control environment. A number of issues were identified by my team as a result of their work. These are set out below.

- Four of the seven claims requiring certification were submitted to us after departmental deadlines for submission to auditors for certification. I was able to certify two of these claims by the audit review deadline.
- I qualified three claims and issued qualification reports to the grant paying departments. For the Local Transport Plan and Housing Benefits claims, the qualifications related to minor reporting issues with no impact on the amount of grant claimed. The Single Programme claim, based on advice from the grant paying body, included £858,358 of expenditure of which £666,480 was not paid until 2010/11. The certification instructions state that the claim should only include payments made during the period.
- I agreed amendments to a further two claims for minor issues. These claims were submitted to the department without qualification reports.
- The Sure Start is still uncertified. I have been unable to meet the deadline of 29 October 2010 as I am still awaiting further information to support the amounts claimed. If there are significant issues arising I will report these to you at a later date.

## Recommendations

**R1** Put arrangements in place to ensure the Council identifies all claims and returns that require certification and ensure submission in accordance with the specified timetable.

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**R2** Ensure the entries on the claims are clearly cross-referenced to supporting documentation.

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## Specific claims

**14** A summary of the 2009/10 claims is set out in appendix 1.



# Appendix 1 Summary of 2009/10 certified claims

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

Claim	Value £	Amended	Qualification
National non-domestic rates (NNDR3)	122,878,713	Yes	No
Housing and council tax benefit	90,939,372	No	Yes
Local transport plan: major projects - A34 Alderley Edge & Nether Alderley Bypass	22,776,695	No	Yes
Teachers' Pension	20,602,539	Yes	No
Sure Start	7,346,661	To be completed	
Single Programme (NWDA) - Crewe Town Centre Public Realm	858,358	No	Yes

Table 2: **Claims between £100,000 and £500,000**

Claim	Value £	Amended	Qualification
Disabled Facilities Grant	478,000	No	No

## Appendix 2 Action plan

Recommendations	
Recommendation 1	
Put arrangements in place to ensure the Council identifies all claims and returns that require certification and ensure submission in accordance with the specified timetable.	
<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Management response</b>	The Grants register will continue to be developed especially in the light of significant changes in the structure of grant income during 2010. The register includes recognition of audit requirements and key contacts (internal and external), the information will be ratified with External Audit as part of regular liaison.
Recommendation 2	
Ensure the entries on the claims are clearly cross-referenced to supporting documentation.	
<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Management response</b>	Clear guidance will be issued to the contacts identified on the grants register as to working paper requirements.

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