

Certification of claims and returns - annual report

Cheshire East Borough Council

Audit 2010/11



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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 2010/11 claims and returns.

- 1** 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.
- 2** 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 2010/11 certification work

3 The Council receives more than £270 million from various Government departments each year. For a significant proportion of this income the Council needs to compile grant claims and returns in accordance with the requirements and timescales set by the grant paying departments. I am required to certify some of these claims and returns. This work is in addition to my main audit which is reported through the Annual Governance Report and Annual Audit Letter.

4 I certified eight claims and returns with a total value of £268.6 million in 2010/11. I made amendments to some claims to correct generally minor errors. Where I was uncertain about the accuracy of amounts in claims I issued qualification letters to the grant-paying body explaining the reasons for my uncertainties. A summary of the outcome from my certification work is shown in table 1.

Table 1: **Summary of 2010/11 certification work**

| Number of claims and returns certified | |
|---|---------|
| Total number of claims and returns certified | 8 |
| Number of claims and returns where the claim was only amended | 5 |
| Number of claims and returns where I only issued a qualification letter | 3 |
| Total cost of certification work | £74,647 |

5 In my 2009/10 report I made two recommendations for improving processes for preparing claims and reducing the level of errors in claims submitted for certification as follows.

- Ensure that arrangements are in place to ensure the Council identifies all claims and returns that require certification and are submitted in accordance with the specified timetable.
- Ensure the entries on the claims are clearly cross-referenced to supporting documentation.

6 In 2010/11 three of the claims requiring certification were submitted to me after departmental deadlines for submission to auditors. I was able to certify one of these by the audit review deadline. The other two claims were certified within a week of the deadlines.

7 Overall the number of qualification letters and level of amendments to claims required in 2010/11 were similar to those in 2009/10, but there is clear evidence that the action being taken by officers has resulted in notable improvements in the quality of supporting audit trails to support the claims. This enabled me to complete certification of all but one claim within significantly shorter timescales.

8 The main issues arising from the audit of specific claims is provided below.

Housing Benefit claim

9 Two of the Council's main claims, the Housing and Council Tax Benefits Scheme and the NNDR3 claim were prepared for the first time using the Northgate Revenues and Benefits system.

10 My testing of the Housing and Council Tax Benefit claim identified a number of errors due to the conversion to the new system. I amended the claim for these errors which resulted in an additional £363,620 subsidy payable to the Council.

11 One type of error identified by officers included the misclassification of a rent allowance overpayment as administration error. The Council does not get any subsidy for administration error overpayments and had therefore under claimed subsidy. Officers reviewed all similar cases and identified transactions to the value of £96,456 incorrectly treated as administration errors. Of this total, £74,983 was adjusted within the 2010/11 claim. The remaining £21,473 has been corrected in 2011/12.

NNDR3

12 My testing of the NNDR3 claim identified differences between the information used to support NNDR3 claim and the information used to compile the accounts. Both sets of information were generated from the new NNDR billing system which came into operation in December 2010.

13 From discussions with officers it appears that as part of the implementation process, prior year transactions (actioned on the previous NNDR systems operating from April 2010 to date of implementation of the new system) were not recorded by separate transaction type. Instead they were posted directly into a 'brought forward balance' and not itemised out separately. I was unable to identify these transactions by class or to quantify their potential impact, if any, on the 2010/11 NNDR3 claim.

14 My testing also identified an error in the calculation of the losses in collection. As a result the Council's contribution to the NNDR Pool was reduced by £601,863.

Recommendations

R1 Ensure all claims and returns that require certification are submitted in accordance with the specified timetable.

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

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Claims and returns above £500,000

15 I certified seven claims with a value over £500,000. For these larger claims, I assessed the control environment for preparing the claims to decide on the testing required. The strength of the control environment is an important factor in determining the level of testing required. The main issues arising from the audits are provided in table 2 and in the text that follows the table.

Table 2: Claims and returns above £500,000

| Claim or return | Value of claim or return presented for certification (£'000) | Was reliance placed on the control environment? | Value of any amendments made (£'000) | Was a qualification letter issued? |
|--|--|---|--------------------------------------|------------------------------------|
| Housing and council tax benefit scheme | 99,017 | N/A | +£364 | Yes |
| National non-domestic rates return | 124,191 | No – this claim was the first produced from the new Northgate Revenues system | -£602 | Yes |

| Claim or return | Value of claim or return presented for certification (£'000) | Was reliance placed on the control environment? | Value of any amendments made (£'000) | Was a qualification letter issued? |
|---|--|---|--------------------------------------|------------------------------------|
| Teachers' pensions return | 20,043 | Yes | N/A | N/A |
| Sure start, early years and childcare grant and aiming high for disabled children grant | 13,213 | No | N/A | N/A |
| Disabled facilities | 623 | Yes | N/A | N/A |
| Single programme – Crewe Town Centre | 80 (2010/11 claim was part of a larger overall scheme) | Yes | N/A | N/A |
| Local Transport Plan: Alderley Edge by-pass | 11,550 | Yes | N/A | N/A |

Claims between £125,000 and £500,000

16 I only performed limited checking for claims between £125,000 and £500,000. There were no significant matters arising from these checks. Minor amendments were made to two claims and one claim was certified with a qualification letter. Table 4 summarises the outcome of the certification of these smaller claims.

Table 3: **Claims and returns above £500,000**

| Claim or return | Value of claim or return presented for certification (£'000) | Was reliance placed on the control environment? | Value of any amendments made | Was a qualification letter issued? |
|--|--|---|------------------------------|------------------------------------|
| Single programme – Crewe Town Centre 2008/09 | 139 | N/A | N/A | Yes |

17 This claim relates to a scheme started by Crewe & Nantwich Borough Council (CNBC). I was asked to certify this claim by the North West Development Agency although I was not the auditor of CNBC.

Summary of progress on previous recommendations

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

Further improvements can be made in the Council's control and submission procedures.

Table 4: 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 |
|--|----------|-------------------------|---------------------|-----------------------|--|
| 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. | H | 2010/11 claims | | Partially implemented | Not all claims in 2010/11 were submitted to us by the deadlines. |
| Ensure the entries on the claims are clearly cross-referenced to supporting documentation. | H | 2010/11 claims | | Partially implemented | Adequate supporting papers were not provided for all claims. |

Summary of recommendations

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

Table 5: Summary of recommendations arising from 2010/11 certification work

| Recommendation | Priority | Agreed action | Date for implementation | Responsible officer |
|--|----------|--|-------------------------|---------------------|
| Ensure all claims and returns that require certification are submitted in accordance with the specified timetable. | H | Efforts will continue to improve co-ordination around the submission of grant returns and to develop the Grants. Register as an effective basis for monitoring and progress checking. | Ongoing | Alex Thompson |
| Ensure the entries on claims are clearly cross-referenced to supporting documentation. | H | Specific follow up will be undertaken with the Audit Commission to identify where working and overall audit trails can be improved. | April 2012 | Chris Mann |

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

| Claim or return | 2010/11 fee | 2009/10 fee | Reasons for changes in fee greater than +/- 10 per cent |
|---|-------------|-------------|---|
| Housing and council tax benefit scheme | £57,328 | £47,003 | A number of errors were identified in 2010/11 which resulted in additional testing being carried out. |
| National non-domestic rates return | £4,014 | £6,357 | 2009/10 claim involved testing of three systems. |
| Teachers' pensions return | £2,747 | £4,536 | Limited testing required in 2010/11. |
| Sure start, early years and childcare grant and aiming high for disabled children grant | £2,681 | £9,414 | Additional testing carried out in 2009/10. Improvements in 2010/11 audit trail and supporting papers. |
| Disabled facilities | £1,237 | £2,507 | Limited testing required in 2010/11. |
| Single programme – Crewe Town Centre 2010/11 | £1,926 | £3,400 | Limited testing required in 2010/11. |
| Local transport plan: Alderley Edge by-pass | £3,001 | £4,887 | Limited testing required in 2010/11. |
| Single programme – Crewe Town Centre 2008/09 | £1,713 | N/A | N/A. |
| Total | £74,647 | £78,104 | |

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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.

