

Certification of Claims and Returns - Annual Report

Uttlesford District Council

Audit 2008/09

February 2010



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

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 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.

Certification of claims

- 1 Uttlesford District Council receives more than £19 million in funding from various grant-paying departments. The grant-paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In 2008/09, we certified five claims with a total value of £41 million¹. Of these, we carried out a full review of four claims and a limited review of one claim. We amended three claims following identified errors and issued a qualification letter to the grant-paying body for a further two claims. Appendix 1 sets out a full summary.
- 3 The fees charged for claims certification work in 2008/09 were £65,981 (compared to fees of £69,182 charged in 2007/08).

Significant findings

- 4 The Council's arrangements for preparing grant claims have improved significantly compared to previous years. Two grants required qualification, compared to three in 2007/08 and three claims were amended (compared to five in 2007/08). In particular, although qualified in 2008/09, we recognise that significant improvements have been made in respect of the Housing and Council Tax Benefit claim. This is reflected in the reduction of the number of errors found during the audit when compared to prior years, and is mainly due to the quality check arrangements implemented within the Housing Benefit department in 2008/09. This has contributed to the reduction in audit fees when compared to 2007/08.

¹ This value of £41 million is higher than the £19 million quoted in paragraph 1. The £41 million total audited grants figure includes the NNDR contribution to the pool amounting to £31 million, which is collected by the Council on behalf of the DCLG. This is significantly higher than the NNDR grant income received back from the pool (approximately £3.6 million), which is included in the £19 million total grant funding figure, and accounts for most of the difference.

Certification fees

- 5 There is still scope to reduce the amount of fees for claims certification work, particularly in respect of the Housing and Council Tax Benefit Scheme. Continued investment in the quality check arrangements could result in reduced errors and limit the amount of further testing required.
 - 6 In addition, the Council should ensure that all claims and supporting working papers are thoroughly checked prior to submission to audit, with a view to reducing audit amendments and the resulting audit time required.
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Actions

- 7 Appendix 3 summarises my recommendations, which have been agreed with the relevant officers of the Council.

Background

- 8 The Council claimed £19 million in respect of 2008/09 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.
- 9 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. 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.
- 10 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 11 The key features of the current arrangements are as follows.
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 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.

Findings

Control environment

- 12** The specific control environment for most claims requiring certification at the Council is considered adequate. Officers are experienced in compiling the claims and have the necessary capacity and knowledge to answer audit queries.
- 13** The majority of working papers are clear and link back to the claims provided for audit. We did note however that for some claims the supplied supporting documentation did not fully agree back to the claim return, resulting in amendments and increased audit work. This could be avoided in future by thoroughly checking claims prior to submission to audit, ensuring they have been correctly compiled, agree to the supplied working papers, and reconcile back to the entries in the final accounts where applicable.

Recommendations	
R1	Ensure that in future, all claims are thoroughly checked prior to submission to audit and that the supplied working papers reconcile back to the figures on the return.
R2	Reconcile claims back to the entries in final accounts where applicable.

- 14** Refer to Appendix 2 for details of an ideal control environment.

Specific claims

- 15** Table 1 below contains the detail of those claims where amendments occurred or where exceptions were raised during the audit, including the action necessary to improve future performance.

Findings

Table 1

Claim	Amendment / Exception detail	Action
Housing and council tax benefits scheme	Audit tests identified a number of case errors which resulted in extended testing and qualification.	Although the number of errors on the housing benefit claim has reduced significantly compared to the prior year, the Council should continue to invest in the quality check arrangements with a view to reducing errors in future.
National Non-Domestic Rates final contribution	Our audit noted that the amount in the losses in collection cell did not agree to the final accounts working papers, resulting in an amendment to the claim, reducing the amount payable by £47,079.	Thorough checks should take place to ensure that the claim agrees to the accounts and supplied working papers prior to submission to audit.
Pooling of housing capital receipts	Our audit noted two matters, both of which were included in the qualification letter. 1) The Council were unable to show how the administration charge of £1,250 per property had been calculated. (Note: the Council have received, subsequent to certification, confirmation from the applicable Department that estimated amounts can now be used). 2) The Council did not calculate the interest owing on a late payment to the Department.	The Council should ensure that payments are made on time to the Department to avoid future interest charges.
Housing subsidy final claim and base data return	A number of minor errors were noted due to the supplied working papers not being calculated correctly.	The Council should review the supporting working papers to ensure that the entries are correctly calculated and that they agree to the claim.

Recommendation

R3 The Council should continue to invest in the Housing Benefits quality check arrangements with a view to reducing errors in future.

R4 Put arrangements in place to ensure that errors noted in 2008/09 for all grant claims do not re-occur in future.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Claim	Value £'000	Adequate control environment	Amended	Qualification letter
Housing and council tax benefits scheme	13,916	Yes	No	Yes
National Non-Domestic Rates final contribution	31,784	Yes	Yes	No
Housing subsidy final claim	-5,162	Yes	Yes	No
Housing subsidy base data return	-	Yes	Yes	No

Claims between £100,000 and £500,000

Claim	Value £'000	Amended	Qualification letter
Pooled capital receipts	229	No	Yes

Appendix 2 – Control Environment

The following controls represent an ideal environment which auditors would be able to rely on. This situation would reduce audit certification costs significantly.

Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions

A control environment upon which reliance can be placed is likely to include:

- evidence of grant terms and conditions being identified and reviewed and action taken at an early stage to collect the information that will be required to demonstrate entitlement to grant;
- comprehensive documentation; and
- ongoing monitoring of compliance with terms and conditions and deadlines.

Control arrangements, including internal financial control and internal audit

A control environment upon which reliance can be placed is likely to have:

- cost codes for each claim/return;
- controls over data posted from other systems/journals and reconciliation that ensure transactions are properly authorised and coded;
- a coding structure tailored to the claim/return requirements;
- procedures to demonstrate funding passed to third parties has been used for the intended purpose;
- effective budgetary control and cash flow monitoring; and
- for claims/returns based on complex (financial) systems, internal audit assurance that systems have operated satisfactorily over the period covered by the claim.

Appendix 2 – Control Environment

Quality of the Council's supporting working papers

A control environment upon which reliance can be placed is likely to have working papers that include:

- the date they were prepared and who prepared them;
- the claim/return entries to which they relate including cross-references to or copies of source documents;
- copies of original approvals, variations and correspondence with the grant paying body;
- a reconciliation of the claim/return to the accounts including payments on account;
- analytical review with explanations of significant variances;
- notes on the basis of any apportionments included;
- a description of relevant internal controls;
- a note of any relevant internal audit work; and
- evidence to support expenditure included in the claim/return but incurred by another body.

Expertise and relevant knowledge of preparers, including the adequacy of supervision and review.

A control environment upon which reliance can be placed is likely to have:

- claims/returns prepared by officers with appropriate expertise and knowledge of the scheme;
- pre-certification checks for arithmetic accuracy, completeness and reasonableness, including test checks to supporting records and review, by an officer not involved directly in the compilation process; and
- evidence of the review process and the steps the council has taken to satisfy itself that the assurance provided by its certificate is well founded.

Other indicators

Cumulative knowledge of the problems associated with compilation of the claim/return including previous points arising, any known concerns expressed by the grant-paying body, or any actions/decisions by the grant-paying body on previous qualification letters.

In a control environment upon which reliance can be placed, there will be no significant issues which are ongoing or recurrent. Effective action will have been taken to address previous points arising including concerns expressed by the grant-paying body and grant-paying body's actions/decisions following previous qualification letters.

Appendix 3- Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Claims and Returns Report 2008/09 - Recommendations						
6	R1 Ensure that in future, all claims are thoroughly checked prior to submission to audit and that the supplied working papers reconcile back to the figures on the return.	2	Chief Finance Officer Head of Customer Support & Revenue Services	Agreed	As acknowledged in the report this is done in the majority of cases, but errors had occurred. Effort will be made to reduce the number of errors.	With immediate effect
6	R2 Reconcile claims back to the entries in final accounts where applicable.	2	Chief Finance Officer	Agreed	As above	With immediate effect
8	R3 The Council should continue to invest in the Housing Benefits quality check arrangements with a view to reducing errors in future.	2	Head of Customer Support & Revenue Services	Agreed	Already in place and will continue	Ongoing
8	R4 Put arrangements in place to ensure that errors noted in 2008/09 for all grant claims do not re-occur in future.	2	Chief Finance Officer Head of Customer Support & Revenue Services	Agreed	This duplicates R1. Same comment as above	As above

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