

Certification of claims and returns - annual report

London Borough of Tower Hamlets

Audit 2009/10

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Contents

Summary	2
Certification of claims.....	2
Significant findings.....	2
Certification fees.....	3
Background	4
Findings	5
Control environment.....	5
Specific claims.....	6
Appendix 1 Summary of 2009/10 certified claims	10
Appendix 2 Action plan	11

Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. The Council needs to be able to demonstrate to auditors that it has complied with the grant conditions. 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 The London Borough of Tower Hamlets submitted claims and returns with a value of £608 million to grant paying departments. The grant paying departments attach conditions to these grants and 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 me, as the auditor, that the relevant conditions have been met.

Significant findings

2 In 2009/10, eleven claims with a total value of £608 million required audit certification. I carried out a full review of all claims. Paragraph 11 explains the difference between a limited and full review.

3 My work resulted in amendments being made to four claims before certification. For three claims, I was unable to fully certify the claim and issued a qualification letter to the grant-paying body. At the time of writing this report, the certification of one of the eleven claims was outstanding. Appendix 1 provides details of each grant submitted for certification.

4 In my 2008/09 grant certification report, I reported weaknesses in the Council's arrangements for the certification of grants. Most significantly, there were delays in getting adequate responses to audit queries and there was insufficient quality review of grants and the supporting working papers.

5 There has been some improvement in the grants provided for audit certification. In particular, there have been fewer amendments to grants before certification. My team has, however, continued to experience delays in getting adequate responses to queries. Delays in certification work result in higher fees for my work and can put funding from grant awarding bodies at risk.

6 The Council's benefits team continues to manage the certification process of the Housing and Council Tax Benefit Subsidy Return well. This has resulted in efficiencies in the certification process and a reduction in the qualification issues in this high value, complex return.

Certification fees

7 The fee I charged for grant certification work in 2009/10 was £109,602. A further charge will be made for the work that is to be completed on the claim that has not yet been certified. I do not expect this charge to be significant.

Background

8 The income received from grants is a significant proportion of the Council's income therefore it is important that this process is properly managed. In particular this means:

- maintaining 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 grant.

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 for all claims other than the Housing and Council Tax Benefits return 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 the entries in the claim form 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 the entries in the claim form 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 several years, 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 I carry out, placing more emphasis on the high value claims.

12 The Housing and Council Tax Benefit Subsidy return is subject to a specified set of tests and detailed case testing is mandated. This approach reflects the high value of the return.

Findings

Control environment

13 All eleven claims certified were over £500,000 and their control environment was subject to a risk assessment. In all cases, it was concluded that reliance could not be placed in the control environment and detailed testing was carried out.

14 There is scope for the Council to improve the control environment and significantly reduce the subsequent audit work. Working papers should include a full analytical review with explanations for significant variances. Most files submitted for certification included evidence of quality review; however errors identified indicate that this could be more robust.

15 My team continued to experience delays in receiving adequate responses to queries. Most notably there were delays in relation to the Pooling of Housing Capital Receipts, Housing Subsidy Base Data Return and New Deals for Communities claims. In some cases delays between requests for information and the response were more than three weeks in one case. It is recommended that, wherever possible, queries should be responded to within three working days.

16 The number of amendments required suggests that the Council's internal quality control procedures are not as robust as they should be. If the Council addresses the issues highlighted above it will reduce the required time input from both Council and Audit Commission staff and the fee for certification work.

Recommendation

R1 Implement the recommendations made in my 2008/09 grant certification report. Specifically:

- respond to all audit queries within three working days where possible;
 - strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this clearly in working paper files; and
 - include a full and detailed analytical review consideration of all significant variances as part of working paper files.
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Specific claims

Housing and council tax benefit subsidy return (BEN01)

17 Our initial work identified errors with individual benefit claims which resulted in the need for additional testing. However the number of errors identified was in line with other authorities where the benefits team manages the certification process well. The errors related to:

- incorrect information or dates being used in income calculations;
- incorrect application of single person's discount;
- mis-classification of overpayments; and
- mis-classification of backdated payments.

18 When errors in the initial sample can not be shown to be isolated errors, an additional sample of 40 cases is selected for testing from the cells affected by the errors. Our initial testing identified that four additional samples of 40 cases were required:

- Cell 11: Rent rebates (tenants of non-HRA properties) - total expenditure;
- Cell 55: Rent rebates (tenants of HRA properties) - total expenditure;
- Cell 94: Rent allowances - total expenditure; and
- Cell 142: Council tax benefit - total expenditure.

19 Due to the nature of the results, it was not possible to amend the claim and for me to conclude that it was fairly stated. For this reason, the results of my testing were reported in a qualification letter.

20 Additionally, when the Council was preparing the claim form it did not include a limited number of adjustments required by a system report. To correct this, amendments were made to cells 102,109 and 116.

21 As a result of above changes the subsidy receivable was reduced by £10,437. This amendment is small in the context of the size of the claim: the reduction made represents 0.004 per cent of the £249,402,349 subsidy claimed.

22 In 2008/09 seven cells were subject to further testing. In response to the matters reported in previous years, the Council set up a quality team to improve the quality of data in its benefits system. The work of this team includes detailed checks in areas of work that have been identified as high risk, such as, claims assessed by new team members. As a result, fewer cells have been subject to qualification than in each of the two previous years. The Council should continue this work to reduce the volume of errors in the claim.

23 My audit team and Council officers carried out early work on the benefits subsidy return to manage the workload more effectively and provide further time to resolve issues identified and perform additional testing.

24 The early work performed, combined with the results of the Council's investment in data quality for this return has contributed to a reduction in the fee for my work on this return.

Recommendation

R2 Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and to support the Housing Benefit claim.

Pooling of Housing Capital Receipts (CFB06)

25 During the audit of the return, an error of £162,000 was found between the aggregate of four quarterly returns and the annual return. The error did not have an impact on the amount to be remitted to the Department, however, it could have been avoided with a more rigorous quality checking process, before submission to audit.

26 Testing of administration costs found invalid items of expenditure and excel formula errors. To correct both of these errors, the original estimate of £10,621 was revised upwards to £11,661, prior to certification. In this instance, the formula errors negated the impact of the invalid expenditure. Only eligible items of expenditure should be included and a review of the working papers should be undertaken to identify any formula errors.

27 As in 2008/09, there were a number of delays in gaining evidence because explanations had to be obtained from officers in other departments. The claim preparer should ensure that where figures are provided by other officers that further information can be obtained in a timely manner.

Recommendation

R3 Strengthen arrangements to provide evidence to support claims and returns such as the housing capital receipts return.

Housing Subsidy Base Data Return (HOU02)

28 During the audit of the Base Data return, issues were identified relating to a transposition error and the omission of a change in mortgage principal to be repaid resulting in overstatement of the claim by £1,500. Additionally, there were a number of delays in responding to queries on this audit and this resulted in the October return deadline being missed.

29 The Council did not carry out a reconciliation of movements between years as part of the process of compiling the return. When the reconciliation was provided upon request, my team found that movements in year had been mis-classified in the return. The return was amended to correct these errors.

30 The Base Data return includes entries which show the rental income the Council has lost because properties were empty during the year. Rental loss from properties unavailable for rent because, for example, they are awaiting major works, should be excluded from the return. Our testing found that of the £2,068,475 of rental loss included in the claim, the Council could only demonstrate that £454,219 should have been included. Due to the nature of the return, it was not possible to establish the impact of the error, therefore the return was qualified.

31 An electronic system (LOGASNET) is used by the Department for Communities and Local Government (CLG) for Councils to submit returns and for auditors to certify the returns. Having obtained CLG permission to reopen the LOGASNET system, for a set period of time, to allow the Council to make amendments, the Council failed to amend and certify the claim. This was because the preparer had not agreed the amendments with the Council's certifying officer before the claim was unlocked. As a result, the claim had to be unlocked a second time and the submission was further delayed.

Recommendations

- R4** Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.
 - R5** Gain an understanding of the reasons for properties being void and the corresponding loss of rental income.
 - R6** Make arrangements to amend and re-certify base data returns on the electronic data collection system within the window set by the awarding body.
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London Development Agency (RG31)

32 The claim forms for both RG31 grants included some administrative details which were not completed prior to submission to audit which resulted in amendments being required.

33 For one of the claims under review, our testing identified three items of expenditure which had not been incurred in accordance with the Council's standing orders because the relevant contract had expired.

34 Three items of expenditure relating to taxi fares with a combined value of £75.74 were tested. All three items were supported by invoices and were approved by the Council officers. My testing found that the nature of the expenditure on taxis was appropriate given the activities being funded by the grant.

35 The total value of taxi fares charged to the claim is £5,479.35. Because the value of expenditure was over £5,000 it is subject to tendering under the Council's standing orders. The Council had previously awarded this contract in accordance with its standing orders, however the contract had expired. The Council continued to procure services in accordance with the terms of the expired contract and did not re-tender the contract. As the expenditure had not been incurred in accordance with the Council's standing orders, the claim was qualified.

Recommendations

R7 Strengthen quality checks to ensure that claim forms are fully completed prior to submission to Audit.

R8 Review controls over procurement to ensure that expenditure is incurred in accordance with the Council's standing orders.

New Deal for Communities (RG03)

36 The work on this claim is currently in progress. I have experienced delays in receiving explanations and supporting evidence from officers and, as a result, the certification deadline has been missed.

37 I will continue to work with officers until the certification work is complete.

Appendix 1 Summary of 2009/10 certified claims

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

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing Benefit Subsidy	249,402,349	N/a	Yes	Yes
Pooling of Housing Capital Receipts	506,502	No	Yes	No
Sure Start Early Years and Childcare Grant	17,488,051	No	No	No
Housing Subsidy Return	15,057,048	No	No	No
Housing Subsidy Base Data Return	As above	No	Yes	Yes
Disabled Facilities Grant	651,000	No	No	No
National Non Domestic Rates Return	291,760,432	No	No	No
Teacher's Pension Return	20,835,494	No	Yes	No
New Deals for Communities	12,316,750	No	TBC**	TBC
London Development Agency	360,171*	No	No	Yes
London Development Agency	76,256*	No	No	No

* The expected value of claim over life of the project is over £500,000.

** Certification work is in progress at the time of drafting this report.

Appendix 2 Action plan

Recommendations

Recommendation 1

Implement the recommendations made in my 2008/09 grant certification report. Specifically:

- respond to all audit queries within three working days where possible;
- strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this clearly in working paper files;
- include a full and detailed analytical review consideration of all significant variances as part of working paper files.

Responsibility	Kevin Miles
Priority	High
Date	June 2011
Comments	<p>The Council has taken steps to implement the previous report but recognise more needs to be done.</p> <p>All efforts will be made to respond to audit queries within three days, however the nature of some questions may require a longer period of time to respond – officers will liaise with auditors if there may be problems in providing a speedy response to some questions to see if alternative assurances are suitable.</p> <p>Claim review processes prior to submission to audit will be conducted, both in the Directorate teams and the Chief Accountant's team.</p> <p>The procedure will be reviewed and re-issued to all relevant staff.</p>

Recommendation 2

Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and to support the Housing Benefit claim.

Responsibility	Steve Hill, Benefits Service Manager
Priority	Medium
Date	June 2011
Comments	<p>The Benefits Service will continue to provide a quality review process. The Service will continue to perform random test checks and target areas for checking that merit development, to ensure accuracy of Benefits awards.</p>

Recommendation 3

Strengthen arrangements to provide evidence to support claims and returns such as the housing capital receipts return.

Responsibility	David Worthington
Priority	High
Date	June 2011
Comments	We agree with the recommendation and we will agree a procedure with colleagues in Tower Hamlets Homes to ensure that information requested will be supplied within the agreed deadlines and monitor to it.

Recommendation 4

Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.

Responsibility	David Worthington
Priority	High
Date	August 2011
Comments	A full review of property classifications was undertaken following the audit of the previous years Base Data return. The audit of the 2011/12 Base Data return did not reveal any discrepancies in the data base. The audit did reveal discrepancies in the analytical review arising from stock movements during the year. A review of property classifications has been completed.

Recommendation 5

Gain an understanding of the reasons for properties being void and the corresponding loss of rental income.

Responsibility	David Worthington
Priority	High
Date	September 2011
Comments	<p>The reasons why a property becomes void and the corresponding loss of rental income is understood. The difficulty arises because following the formal decision to decant and demolish there is a considerable time delay before the actual demolition takes place. During this period some dwellings are used for short term tenancies to provide housing to the community. In view of this we calculated the loss of rent income up to the day that the property was handed over to the developer.</p> <p>The auditor did not accept our interpretation and this was the basis of the qualification.</p>

In the forthcoming coming Base Data return information in relation to demolitions will be crucial because it will have significant implications for the valuation of the business under self financing. It is also anticipated that the supporting evidence will be more onerous than in previous years. A meeting will be held with the auditors at an early stage in order to gain a mutual understanding of the definitions and the evidence required.

Recommendation 6

Make arrangements to amend and re-certify base data returns on the electronic data collection system within the window set by the awarding body.

Responsibility David Worthington

Priority High

Date September 2011

Comments The amendments were not made and the claim re-certified because during the time the window was opened the draft subsidy determination was received. Details of the amendments were fed into the draft determination and it was discovered that as a result of the amendment a significant amount of subsidy would be lost, The amendment related to the loss of income from void properties and as this was disputed the window to make amendments were missed. Early dialogue with our auditors should prevent this situation from occurring again.

Recommendation 7

Strengthen quality checks to ensure that claim forms are completed prior to submission to Audit.

Responsibility Kevin Miles

Priority High

Date June 2011

Comments Directorate finance teams complete the claim forms for their services based on transactions originating in their area. Finance Managers to review the claim's details and complete a check-list prior to submitting to Chief Accountant's team for review. Chief Accountants team conduct a high level check of claims before submitted to auditors – these checking arrangements will be discussed with Directorate teams.

Recommendation 8

Review controls over procurement to ensure that expenditure is incurred in accordance with the Council's standing orders.

Responsibility	Richard Parsons/Alan Finch
Priority	High
Date	June 2011
Comments	The Council operates with a system of devolved management responsibility which requires senior managers to comply with procurement procedures. The corporate Competition Board is considering whether an internal system of training and accrediting certain officers to undertake procurements is appropriate. The Head of Procurement will continue to communicate the requirements of the procurement procedures to responsible officers via the corporate Competition Board and by other means. The Head of Corporate Finance will write to Corporate Directors and Directorate Finance Managers setting out the facts of this particular case and explaining the risk of grant qualification.

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