

Certification of claims and returns - annual report

London Borough of Tower Hamlets

Audit 2008/09

March 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 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** The London Borough of Tower Hamlets receives funding from various grant-paying departments. The grant-paying departments attach conditions to these grants and the Council must show 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 that the relevant conditions have been met.
- 2** In 2008/09, eleven claims with a total value of £563 million were subject to certification. Of these, we performed a limited review of two claims and a full review of nine claims. Paragraph eight explains the difference between a limited and full review. Seven claims required amendment to correct errors prior to certification. For three claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. One of these qualification issues was subsequently resolved following a request from the grant paying body for the Council to conduct further work. The certification of one of the eleven claims is currently outstanding. Appendix 1 provides a summary of the eleven claims subject to certification.
- 3** The fee I charged for grant certification work in 2008/09 was £114,746. 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.

Actions

- 4** An action plan which has been agreed with officers is attached in Appendix 2.

Background

- 5 For 2008/09 we have been required to certify returns totalling £563m 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.
- 6 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 London Borough of Tower Hamlets. 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.
- 7 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 8 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

Cross-cutting findings

- 9 The control environment of every claim over £500,000 was subject to a risk assessment. In nine cases, it was concluded that reliance could not be placed in the control environment and detailed testing was carried out. 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. There is evidence of quality review on the majority of files submitted for certification, however errors identified indicate that this is not always sufficiently robust.
- 10 Overall the speed of response to audit queries has declined and delays were encountered in receiving adequate audit evidence for some grants. In some cases delays between requests for information and the response were up to two weeks. It is recommended that wherever possible queries should be responded to within three working days.
- 11 In some cases delays were experienced where the main contact was reliant on information from a number of sources within the Council. Where an officer has been identified as the claim contact they should have a full understanding of the entries within the claim and their source. If information is required from another officer this will be requested through our contact for the claim.
- 12 The number of amendments required suggests that the Council's internal quality control procedures are not as robust as they should be. A reduction in the number of amendments will reduce the required time input from both Council and Audit Commission staff and the fee for certification work.
- 13 The appointment of a specific grant claims co-ordinator was helpful in resolving general queries and escalating issues arising on individual grants. However this officer was changed in year and the audit team was not informed promptly which meant that problems were not resolved as quickly as they could have been.

| Recommendations | |
|-----------------|---|
| R1 | Respond to all audit queries within three working days wherever possible. |
| R2 | 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. |
| R3 | Include a full and detailed analytical review consideration of all significant variances as part of working paper files. |
| R4 | Inform the audit team of any changes to key grants contracts during the course of certification work. |

Findings relating to specific grant claims and returns

Housing Benefits Subsidy (BEN01)

- 14** During the audit errors were identified with individual claims which resulted in the need for additional testing. These related to incorrect information or dates being used in income calculations, mis-classification of overpayments and mis-classification of backdated payments.
- 15** When fails which could not be shown to be isolated errors are identified in the primary sample, an additional sample of 40 cases is tested from the cells affected by the errors. Our initial testing identified that eight additional samples of 40 cases were required.
- Cell 11: Rent Rebates (Tenants of Non-HRA Properties) - Total Expenditure
 - Cells 16 & 17: Homeless People in Licensed Accommodation - Expenditure above the cap and Expenditure between the threshold and up to and including the cap
 - Cell 28: Rent Rebates (Tenants of Non-HRA Properties) - Eligible Overpayments
 - Cell 38: Rent Rebates (Tenants of Non-HRA Properties) - Backdated Payments
 - Cell 55: Rent Rebates (Tenants of HRA Properties) - Total Expenditure
 - Cell 94: Rent Allowances - Total Expenditure
 - Cell 142: Council Tax Benefit - Total Expenditure
 - Cell 148: Council Tax Benefit - Eligible Excess Benefit
- 16** Where the results of the testing allowed us to conclude that an adjustment to a cell would result in it being fairly stated, the claim was amended. In all other cases, we reported our results in a qualification letter. As a result of the amendments, the subsidy payable to the Council was reduced by £109,426.
- 17** The additional sample testing was undertaken by the Council. Work has been undertaken to reduce the error rates and thus reduce the amount of additional testing that is required. This has reduced the amount of extra work that is required by both the Council and the audit team - in 2007/08 ten further samples of 40 cases were required. The Council should continue this work to reduce the volume of errors in the claim
- 18** While the total number of qualification issues has decreased from the previous year there is a need for more detailed checking of ongoing work to ensure that benefits are awarded at the correct rate.

Recommendation

- R5** Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and support to the Housing Benefit claim.

Findings

Pooling of Housing Capital Receipts (CFB06)

- 19 The deadline for submission to audit was missed as a result of late resolution of final accounts audit queries. During the audit of the return issues were identified relating to both transposition errors and excel formula errors which could have been avoided with a more rigorous quality checking process prior to submission to audit.
- 20 Testing of administration costs found invalid items of expenditure which were removed prior to certification. The Council should ensure that only eligible items of expenditure are included by referring to the guidance and CI.
- 21 Evidence could not be provided to support an entry in the claim relating to repayments of RTB principal. This figure was adjusted to only include the items which could be evidenced. Supporting evidence should be maintained for all figures.
- 22 There were a number of delays in the resolution of queries due to the claim preparer pursuing explanations from officers in other departments. The claim preparer should ensure that where figures are provided by other officers that they fully understand the basis of these and that further information can be obtained in a timely manner.
- 23 Delays were experienced because evidence had to be retrieved from archiving. To avoid similar delays in future, evidence to support claims should be held locally until certification work is complete.
- 24 Due to the issues above the amount due to CLG was understated and a small penalty payment was incurred by the Council.

Recommendation

- R6** Strengthen arrangements to provide evidence to audit to support claims and returns such as the housing capital receipts return.

Housing Subsidy Base Data Return (HOU02)

- 25 During the audit of the Base Data return issues were identified relating to transposition and data entry errors which could have been avoided with a more rigorous quality checking process prior to submission for audit.
- 26 There were a number of delays in responding to queries on this audit and this resulted in the October return deadline being missed.
- 27 Testing identified a number of properties where there were inconsistencies in the property management system between the property description and the subsidy classification for subsidy purposes. This issue could have been resolved with further work from the Council but as the deadline for the return had already been missed it was agreed that this would be reported as a qualification issue. On CLG's request further work was conducted by the Authority to resolve this issue. Following individual analysis of each property the return was amended and subsequently re-certified without qualification.

- 28** Having obtained CLG permission to reopen the LOGASNET system to allow the Council to make amendments for a set period of time, the Council failed to action the amendments by this deadline which further delayed submission and required a second request to be made to CLG.

Recommendations

- R7** Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.
- R8** Make arrangements to amend and certify base data returns on the electronic data collection system within the window set by the awarding body.

Housing Subsidy Return (HOU01)

- 29** As with the housing subsidy base data return there were delays in the resolution of queries. Additionally the claim preparer was in part reliant on the working papers of a finance officer no longer employed by the Council which further delayed responses.
- 30** Amendments were required to the return due to inconsistencies with the audited financial statements. In one case this was due to an amendment made during the accounts audit not having been communicated to the claim preparer by the finance department.
- 31** As with the previous year, this claim has been qualified due to adjustments in cell F001cm which are not permitted by the certification instructions. The claim preparer has briefed us on the background to these adjustments and considers that they are necessary to ensure that the correct subsidy is awarded. These adjustments are not expected to recur in 2009/10.

Recommendations

- R9** Communicate adjustments to the financial statements to relevant officers to ensure that housing subsidy grant claims are fairly stated.
- R10** Implement detailed handovers when officers leave to ensure that adequate knowledge is retained in-house.

Disabled Facilities Grant (HOU21)

- 32** As with the CFB06 return, delays were experienced because evidence had to be retrieved from archiving. This led to the certification deadline being missed. To avoid similar delays in future, evidence to support claims should be held locally until audit work is complete.

Findings

Teachers' Pension Return (PEN05)

- 33 The Teachers' Pension return at Tower Hamlets requires input from both in-house and outsourced schools payroll systems. Wherever it is possible we place reliance on the work of Internal Audit in order to make the most efficient use of officer time. We placed reliance on work conducted by Internal Audit to gain assurance over the data from the outsourced payroll systems.
- 34 Internal Audit identified minor errors totalling £41 in the £284k sample of payroll data tested. We extrapolated these errors to determine the total amendment required to the claim. The resultant amendment increased the amount payable to the Teacher's Pensions Agency from £-19.91 to £658.82.
- 35 Prior to our extrapolation the claim preparer was unaware that errors had been identified during Internal Audit testing which created minor delays in the approval of the amendment by the Council.

Recommendation

R11 Fully cascade findings from internal audit work to officers to ensure they are aware of all relevant findings.

New Deal for Communities (RG03)

- 36 The work on this claim is currently in progress. We have experienced delays in receiving explanations and supporting evidence from officers and as a result, the certification deadline has been missed.
- 37 We will continue to discuss this work with senior officers until the certification work is complete.

Appendix 1 – Summary of 2008/09 certified claims

| Claim / Return | CI Reference | Value (£) | Deadline | Date Certified | Amended (A) / Qualified (Q) |
|--|--------------|-----------------|------------|---|---|
| Housing Benefit Subsidy | BEN01 | 220,190,058 | 30/11/2009 | 30/11/2009 | AQ |
| Pooling of Housing Capital Receipts | CFB06 | 7,537,754 | 30/09/2009 | 06/11/2009 | A |
| Sure Start Early Years and Childcare Grant | EYC02 | 10,308,686 | 31/10/2009 | 28/10/2009 | No issues arising |
| Housing Subsidy Return | HOU01 | 19,437,343 | 31/12/2009 | 23/12/2009 | AQ |
| Housing Subsidy Base Data Return | HOU02 | See HOU01 above | 09/10/2009 | 06/11/2009 (re-certified 23/12/2009 following further work) | AQ (qualification issue subsequently resolved following further work and recertification) |
| Disabled Facilities Grant | HOU21 | 588,000 | 31/10/2009 | 20/11/2009 | No issues arising |
| National Non Domestic Rates Return | LA01 | 282,565,371 | 25/09/2009 | 25/09/2009 | No issues arising |

Appendix 2 – Action plan

| Claim / Return | CI Reference | Value (£) | Deadline | Date Certified | Amended (A) / Qualified (Q) |
|---------------------------|--------------|--------------------|------------|----------------|-----------------------------|
| Teacher's Pension Return | PEN05 | 19,687,170 | 30/11/2009 | 16/11/2009 | A |
| New Deal for Communities | RG03 | 2,325,288 | 31/12/2009 | TBC | TBC |
| London Development Agency | RG31 | 101,165 | 31/07/2009 | 27/07/2009 | No issues arising |
| London Development Agency | RG31 | 362,130 | 31/07/2009 | 31/07/2009 | A |
| | | 563,102,965 | | | |

Appendix 2 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|---|--------|---|---|
| 5 | R1 Respond to all audit queries within three working days wherever possible. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Grant compilers and Finance Managers to be reminded of 3 working day deadline by Chief Accountant's Team. After 3 working days, escalate to relevant Finance Manager. | Reminder email to be sent out by 31/3/10 |
| 5 | R2 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. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Directorates have the specialist knowledge relating to each audited claim. Finance managers to carry out detailed review of claims prior to submission and sign off working papers. Central grants co-ordinator to review completeness of working papers and evidence of checks within directorates. Guidance/procedure note to be sent out to finance managers and claim preparers by Chief Accountant's Team. | Reviews ongoing. Guidance to be sent out by 31/3/10. |
| 5 | R3 Include a full and detailed analytical review consideration of all significant variances as part of working paper files. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Updated guidance/procedure note to be sent out to directorates by Chief Accountant's Team highlighting the need for this. | 31/3/10 |
| 5 | R4 Inform the Audit Commission of any changes to key grants contracts during the course of certification work. | 2 | Alison Gebbett (Chief Accountant's Team) | Yes | Audit Commission will be informed by Chief Accountant's Team of any changes to contacts (in particular the central grants co-ordinator) | Ongoing |

Appendix 2 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|---|--------|---|--|
| 6 | R5 Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and support to the Housing Benefit claim. | 3 | Martin McGrath | Yes | Martin McGrath arranged for training to be provided to his team. This was carried out by Zebra Training on 22nd January 2010. Housing benefits subsidy claim currently checked by 3 staff before submitting for final checks by Chief Accountant's Team | 22/1/10 (Completed) |
| 7 | R6 Strengthen arrangements to provide evidence to audit to support claims and returns such as the housing capital receipts return. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Grant compilers to be reminded of need for gathering evidence and working papers prior to audit. This will be covered in the revised guidance/procedure note to be sent out by Chief Accountant's Team. | Revised guidance to be sent out by 31/3/10 |
| 8 | R7 Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database. | 2 | Paul Leeson (D&R Finance Manager) | Yes | Housing subsidy claim preparer to address, and to be reviewed by D&R finance manager. | 31/8/2010 (Deadline for HSBD claim) |
| 8 | R8 Make arrangements to amend and certify returns on the electronic data collection system within the window set by the awarding body. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Grant compilers and finance managers to ensure return is entered on electronic system by deadline. Where extension is necessary, finance manager to ensure that data is entered, reviewed and approved on system before extension expires. Chief Accountant's Team to highlight this in revised guidance. | Ongoing. Revised guidance to be sent out by 31/3/10 |
| 8 | R9 Communicate adjustments to the financial statements to relevant officers to ensure that grant claims are fairly stated. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Ensure that any adjustments to the financial statements which are relevant to grant claims are communicated to grant claim preparers. | July-Sep 2010 (Audit period for financial statements) |

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|--|--------|--|----------|
| 8 | R10 Implement detailed handovers when officers leave to ensure that adequate knowledge is retained in-house. | 3 | Alison Gebbett (Chief Accountant's Team) | Yes | Finance managers to ensure that grant compilers carry out detailed handover if officers leave the authority. Chief Accountant's Team to act as support for directorates who are new to grant claims and need further guidance. | Ongoing. |
| 9 | R11 Fully cascade findings from internal audit work to officers to ensure that they are aware of all relevant findings. | 1 | Alison Gebbett (Chief Accountant's Team) | Yes | Any relevant internal audit reports to be forwarded to grant compilers by Finance Managers. Chief Accountant's Team to incorporate this into revised guidance notes. | Ongoing. |

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