

# Certification of claims and returns - annual report

London Borough of Tower Hamlets

Audit 2010/11



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# Introduction

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**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.**

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. In broad terms 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 claims work I carry out, placing more emphasis on the high value claims.

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.

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

The Council has prepared its larger claims and returns well. Improvements could be made in relation to some of the smaller claims and returns.

For 2010/11, my team certified ten claims for the Council with a total value of £609 million. The overall quality of claims presented to audit is adequate. The Council's systems and processes in relation to the Housing and Council Tax Benefit return and the National Non-Domestic Rates return continue to be good. Improvement was made in relation to the Housing returns but further improvement is still required in relation to some of the smaller claims and returns.

Table 1: Summary of 2010/11 certification work

Number of claims and returns certified	2010/11	2009/10
Total number of claims and returns certified	10	11
Total value of claims and returns certified	£609m	£608m
Number of claims and returns amended due to errors	3	4
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	2	3
Total cost of certification work	£105,455	£114,966

# 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.

A summary of my work on your 2010/11 claims is shown in Table 2 below.

Table 2: Detail of claims and returns certified

Claim or return	Value of claim or return certified (£'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	268,881	N/a – the certification instruction for this claim does not allow discretion in the tests applied.	19	Yes
Pooling of housing capital receipts	10,641	No	12	No
HRA subsidy	14,895	No	N/a	Yes
Housing finance base data return	N/a	No	N/a	No
National non-domestic rates return	265,653	No	N/a	No

Claim or return	Value of claim or return certified (£'000)	Was reliance placed on the control environment?	Value of any amendments made (£000)	Was a qualification letter issued?
Teachers' pensions return	21,517	No	N/a	No
Sure start, early years and childcare grant and aiming high for disabled children grant	20,821	No	0.05	No
Disabled facilities	730	No	N/a	No
New deal for communities	5,000	No	N/a	No
Single programme	743	No	N/a	No

Two claims were certified subject to a qualification. The qualifications issues were:

- The housing and council tax benefits claim is governed by more complicated regulations than the other claims and returns. The majority of these claims nationally are certified subject to qualification. The qualifications relating to the Council are similar to those arising at other London boroughs. Officers engaged well in the certification process and have continued to improve the quality of the data used to compile the claim. This was reflected in a reduction in the fee for this claim.
- The Housing Subsidy Base Data return was qualified because the Council was unable to provide a copy of a contract with the Homes and Community Agency to evidence its agreed capital contribution to new build schemes.

My work on the Sure Start claim identified weaknesses in the Council's controls over the recognition of expenditure. My testing found that £655k of 2010/11 expenditure in the claim had been recognised in the 2011/12 ledger. The expenditure was correctly included in the claim so this issue did not result in a qualification, but the Council should undertake work to understand and correct the control weaknesses in this area.

My evaluation of the individual control environment for each claim concluded that detailed testing was required for each claim. In order for me to place reliance on the control environment and reduce auditor testing, the Council will need to:

- demonstrate a track record of no amendments or qualification on individual claims;
- increase quality checking of claims prior to passing to audit, including independent checks on the eligibility of expenditure.

## Recommendations

**R1** Further strengthen the control environment for grants. Specifically:

- implement a more detailed review process prior to submission for audit and demonstrate 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.

**R2** Establish the reasons for the miscoding of expenditure in the Sure Start claim and take action to correct this control weakness.

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# Summary of progress on previous recommendations

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

The Council has made progress implementing the recommendations in my previous report and this has contributed to a reduction in the fee I charged for my work. The greatest improvement was seen in high value claims where any delays in certification could have an impact on the funding received by the Council.

Table 3: 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
Implement the recommendations made in my previous grant certification report. Specifically: <ul style="list-style-type: none"><li>■ respond to all audit queries within three working days where possible;</li><li>■ strengthen the grant claims and returns control environment by implementing a more detailed review process prior to audit submission and demonstrating this</li></ul>	High	June 2011	Kevin Miles	Partially implemented	There have been improvements in this area. Fewer errors were identified in claims in 2010/11 and queries were answered more promptly. Further improvement could, however, be made in this area which would help me to place reliance on the claims control environment.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>clearly in working paper files;</p> <ul style="list-style-type: none"> <li>include a full and detailed analytical review consideration of all significant variances as part of working paper files.</li> </ul>					
Continue to quality review benefits processing and provide training to staff to improve the accuracy of awards and to support the Housing Benefit claim.	Medium	June 2011	Steve Hill	Implemented	The quality of data used to compile this claim has improved.
Strengthen arrangements to provide evidence to support claims and returns such as the housing capital receipts return.	High	June 2011	David Worthington	Implemented	My certification work did not identify any issues in this area.
Review the property classifications in the housing subsidy base data return to ensure that it is fully consistent with the supporting database.	High	August 2011	David Worthington	Implemented	My certification work did not identify any issues in this area.
Gain an understanding of the reasons for properties being void and the corresponding loss of rental income.	High	September 2011	David Worthington	Implemented	My certification work did not identify any issues in this area.
Make arrangements to amend and re-certify base data returns on the electronic data collection system within the window set by the awarding body.	High	September 2011	David Worthington	Implemented	My certification work did not identify any issues in this area.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Strengthen quality checks to ensure that claim forms are completed prior to submission to audit.	High	June 2011	Kevin Miles	Partially implemented	There have been improvements in this area. Fewer errors were identified in claims in 2010/11 and queries were answered more promptly. Further improvement could, however, be made in this area which would help me to place reliance on the claims control environment.

# 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 4: 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	54,808	60,956	Continued improvements to data quality and a good working relationship with the staff who compile the claim has resulted in a reduction in the fee for this work.
Pooling of housing capital receipts	5,439	5,341	N/a
HRA subsidy	2,092	1,954	N/a
Housing finance base data return	7,792	7,247	N/a
National non-domestic rates return	10,038	10,875	N/a
Teachers' pensions return	1,329	1,238	N/a
Sure start, early years and childcare grant and aiming high for disabled children grant	7,901	5,421	My work on the 2010/11 claim identified control weaknesses with the coding of expenditure. Additional work was required to establish the impact of this issue.

Claim or return	2010/11 fee (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Disabled facilities	1,980	1,560	Change in profile of resources used to undertake the work.
New deal for communities	6,284*	8,979	The Council had improved the quality and timeliness of responses to auditor queries.
Single programme	3,317	5,674	There was one single programme claim in 2010/11 and two in 2009/10.
Grants planning and reporting	5,075*	5,721	In 2009/10 there were more notable delays in the certification of claims. Overall arrangements have improved which resulted in less time being spent managing the certification process.
<b>Total</b>	<b>106,055</b>	<b>114,966</b>	

\* estimated

## Appendix 1 Action Plan

### Recommendations

#### Recommendation 1

Further strengthen the control environment for grants. Specifically:

- implement a more detailed review process prior to audit submission and demonstrate 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.

<b>Responsibility</b>	Kevin Miles / Finance Manager for Directorate responsible for completing claim
<b>Priority</b>	High
<b>Date</b>	April 2012
<b>Comments</b>	Working paper reviews are conducted by relevant Directorate Finance Manager. Finance Managers will be reminded of importance of review and that working papers are to include a variance analysis to last year's claim where previous claim submitted.

#### Recommendation 2

Establish the reasons for the miscoding of expenditure in the Sure Start claim and take action to correct this control weakness.

<b>Responsibility</b>	Kevin Miles / Finance Manager for Directorate responsible for completing claim
<b>Priority</b>	High
<b>Date</b>	April 2012
<b>Comments</b>	Work is being done in this area to better understand the issue and take corrective action as needed.

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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.

