

Certification of claims and returns - annual report

Bath and North East Somerset Council

Audit 2009/10

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Summary

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 prove to the auditors that it has met the conditions that attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from our assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

1 Bath & North East Somerset Council receives more than £195 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must meet 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 prove to us, as auditors, that it has met the relevant conditions.

2 The audit commission agrees audit arrangements for some of the claims. Where this is the case they issue a certification instruction setting out the work we are required to do. In 2009/10, the audit team certified five claims with a total value of £117 million. Of these, we carried out a limited review of one claim and a full review of the remaining four claims. (Paragraph 14 explains the difference.)

Significant findings

3 There remains scope for the Council to improve its arrangements for preparing and certifying claims and returns.

4 Three of the five claims due for certification were presented for audit after the departmental deadline for submission to us, although two were within one week of the submission deadline. One claim was not certified within the deadline for audit certification. A delay of a few days arose due to the need to agree audit amendments.

5 We found that the working papers supporting claims were generally of a good standard.

6 Officers have introduced a pre-certification checklist to be completed by the officer preparing the claim, before submission for certification by the Chief Financial Officer. This new process had a notable impact when finance officers identified that the draft Teachers Pension Return was inadequately prepared, and working papers subsequently found to be inadequate. Senior finance officers assigned extra resources from the Finance department to undertake a detailed reworking of the claim and its supporting working papers.

7 Of the five claims we audited, minor amendments were made to three. We issued qualification letters to the grant-paying body for three claims where we identified non-compliance with the requirements set by the grant paying bodies. Appendix 1 sets out a summary.

Certification fees

8 The fees charged for grant certification work in 2009/10 were £50,497. The fees are based on the time taken to complete the work rather than a preset annual amount.

Actions

9 Appendix two summarises our recommendations. These include recommendations for general grant claims arrangements across the Council, and a summary of those detailed recommendations for individual claims. The relevant officers of the Council have already agreed these recommendations.

Background and audit approach

10 The Council claims more than £195 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that the Council effectively manages the preparation of its grant claims. 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.

11 We are 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 Bath & North East Somerset Council. We charge a fee to cover the full cost of certifying claims. The fee depends on the work required to certify each claim or return.

12 The Council is responsible for compiling grant claims and returns in line with the requirements and timescale set by the grant paying departments.

13 The key features of the current arrangements are as follows.

- For grant claims below £100,000 the Commission does not make certification arrangements.
- For grant claims between £100,000 and £500,000, auditors undertake limited tests to agree the claim to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims over £500,000 auditors assess the control environment for preparing the claim or return to decide whether they can place reliance on it. Where we are able to place reliance on the control environment, we undertake limited tests to agree form entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where we cannot place reliance on the control environment, we undertake detailed tests using the assessment of the control environment to inform the extent of the testing required. This means we can reduce the audit fees for certification work if the control environment is strong.
- For claims spanning more than one year, the financial limits above apply to the amount claimed over the entire life of the claim and we apply testing accordingly. The approach impacts on the grants work we carry out, placing more emphasis on high value claims.

Findings

Control environment

14 The officers completing the Council's grant claims and returns are experienced, have a detailed knowledge of the claim and generally produce a good standard of supporting working papers. They responded to requests for information in a timely and positive manner.

15 For some claims (notably the NNDR return) there is clear evidence of review of the draft claim by the line manager of the officer completing the claim.

16 Officers have introduced a pre-certification checklist, completed by the officer preparing the claim, before submission for certification by the Chief Financial Officer.

17 The only claim where we consider the Control Environment to be weak is in relation to the preparation of the Teachers Pensions Return.

Main conclusions

18 The net impact of the audit amendments raised in the year was low in value.

19 Officers presented three of the five claims due for certification for audit past the departmental deadline for submission, although two were within 1 week of the submission deadline. One claim was not certified within the deadline for audit certification. A delay of a few days arose because of the need to agree audit amendments. Table one summarises performance compared to previous years.

Table 1: **Summary analysis of grant claims performance**

Performance is similar to previous years

	2007/08		2008/09		2009/10	
	No.	%	No.	%	No.	%
Claims submitted for audit	6	-	5	-	5	-
Claims not submitted for audit within deadline	5	83	4	80	3	60
Claims not certified within deadline	1	17	1	20	1	20
Claims amended at	3	50	3	66	3	66

	2007/08		2008/09		2009/10	
	No.	%	No.	%	No.	%
audit						
Claims with Qualification letter raised	2	33	3	66	3	66

20 Other than for the NNDR return, there is still a lack of evidence of review of the draft claim and working papers by line managers before submission for certification by senior officers. This suggests that Council officers are largely relying on the external audit of the claim to identify errors.

21 Officers have introduced a pre-certification checklist to be completed by the officer preparing the claim, before submission for certification by the Chief Financial Officer. This new process had a notable impact when the draft Teachers Pension Return was identified as inadequately prepared, and working papers subsequently found to be inadequate. Senior officers assigned extra resources from the Finance department to undertake a detailed re-working of the claim and its supporting working papers.

Recommendation

R1 Officers should present all grant claims for audit by the deadline set by the government department. Managers of those responsible for submitting grant claims should monitor progress to ensure claims are adequately prepared.

22 We have reported detailed issues arising from the audit of each grant claim to officers responsible for the individual claims, and agreed action plans to improve arrangements in future years. The key issues are summarised below.

Specific claims

23 This section details the issues arising on each claim subject to audit.

National Non-Domestic Rates return

24 We were able to place limited reliance on the control environment. This is due to an issue noted in the previous year about up-dating applications for small business rate relief. Analytical review also highlighted significant variances in the claim over the previous year. We undertook detailed testing.

25 We identified the authorisation of write offs was not sufficiently evidenced in one case. This led to a qualification of the return. Our initial sample testing of five write-offs found one item (value £22,911) where there was no evidenced approval for the write off by management. We extended our audit sample by a further five cases and found no further instances of unapproved write-offs.

26 The Council has since reviewed all write-offs made during the year and satisfied itself that this was an isolated case.

27 We reported this issue in a qualification letter.

Sure Start, Early Years, and Childcare grant

28 We undertook detailed testing of this claim to confirm that we were able to continue to place reliance on the Control Environment around this claim.

29 We noted only minor issues during the audit, leading to a low value amendment of the claim.

Housing and Council Tax Benefit subsidy claim

30 We assessed that the control environment was largely effective. The grant paying department, however, still requires that we undertake detailed testing of this claim because of its complexity and value.

31 Our testing of samples of benefits transactions identified a small number of cases where benefits assessors had incorrectly recorded information from the supporting evidence on to the Benefits system. We tested additional transactions to enable us to quantify extrapolated errors on the claim. We made minor amendments to the claim.

32 We quantified and agreed an audit amendment relating to the assessment of eligible rent for Non-HRA rent rebates.

33 We raised a qualification letter detailing uncertainties arising from our testing in respect of single adult occupiers for Council tax benefits.

Teachers Pensions (TP) Return

34 We were not able to place reliance on the control environment around the return. This was because of the errors noted on the previous year's returns (2007/08 and 2008/09), and the lack of monitoring or review of the return before its submission. We therefore undertook full audit testing in line with the requirements of the relevant certification instruction.

35 While the Council holds overall responsibility for the return, responsibility for preparing the return lies with the payroll provider, Mouchel. This is monitored by the 'client' department, Human Resources.

36 As in previous years the return was prepared with little supervision or review by line management within Mouchel. Similarly, there was no evidence of review of the draft claim and its supporting working papers by the 'client side', Human Resources, before presenting the draft claim for certification by the Chief Financial Officer.

37 The Chief Financial Officer identified that the draft claim was incomplete and was not evidenced as agreed to underlying working papers. Extra resources from the Finance department were assigned to undertake a detailed reworking of the claim and its supporting working papers.

38 The draft return was sent to TP and to audit by the deadline of 30 June 2010. However, the claim was subject to major amendments by the Council following the extra work undertaken by Finance staff. This was done after submission to TP and audit. We had to record these as audit amendments.

39 Schools have not provided information necessary for the return, to Mouchel, on a timely basis. As Mouchel arguably have little authority over the schools, there is a need for the Council's Finance department to write to schools requiring schools to provide the information requested by Mouchel on a timely basis.

40 It is disappointing to note that Council officers and Mouchel had not addressed the issues raised in our previous year's action plan regarding this claim. There remains a danger that Teachers Pensions could take action against the Council if these issues are not addressed for future audits.

41 The Council has incurred the cost of Finance staff recompiling the return, when Mouchel should provide this service under its contract as payroll provider. The Council needs to ensure there is clear agreement over the responsibilities of the contractor (Mouchel) in completing the return, and the client side in reviewing the return and supporting working papers.

42 We are seeking to agree a further action plan, which will ensure that the Council assigns clearer responsibility between the payroll provider and client side for preparing the claim.

Recommendation

R2 Finance officers should monitor to ensure that Mouchel and Human Resources take adequate action to address the issues set out in our

Recommendation

action plan in relation to the Teachers Pensions Return.

Disabled Facilities grant

43 This grant was between the £100,000 and £500,000 thresholds, and therefore we only undertook limited testing of this claim

44 No significant issues arose during the audit of the claim.

Audit fees

45 The total amount billed to the Council for the audit of grant claims in 2009/10 was £50,497. This is analysed below.

Table 2: **Analysis of audit fees**

Performance is similar to previous years

Claim	2008/09 fee	2009/10 fee
	£	£
National non-domestic rates return	4,967	4,078
Sure start early years and childcare grant	2,928	1,768
Housing and Council tax benefit subsidy claim	38,052	39,655
Teacher's pensions return	3,894	4,393
Disabled facilities grant	1,842	603
Total	51,683	50,497

46 The fees charged to the Council are based on the actual time taken by auditors to complete the audits. Therefore it is in the Council's interest to minimise the audit work required to certify the claims, by presenting the claims for audit by their due date, presenting self-explanatory working papers to support the entries and the claims, and ensuring that the requirements of the grant paying body and the certification instruction are complied with.

The way forward

47 We attach an action plan in appendix two that sets out our recommendations for preparing grant claims in future years.

Appendix 1 Summary of 2009/10 certified claims

Claims and returns above £500,000

Service	Claim	Value £	Adequate control environment	Amended	Qualification letter
Revenues & benefits	NNDR return	48,252,425	Limited assurance	No	Yes
Children's Services finance	Sure Start, Early Years and Childcare	4,981,392	Yes	Yes	No
Revenues & Benefits/ Central services finance	Housing & Council Tax benefit subsidy	52,368,255	Limited assurance	Yes	Yes
Mouchel/ Human Resources	Teachers Pensions return	11,069,765	No	Yes	Yes

Claims between £100,000 and £500,000

Service	Claim	Value £	Amended	Qualification letter
Social services finance	Disabled Facilities Grant	405,000	No	No

Appendix 2 Action plan

Recommendations

Recommendation 1

Officers should present all grant claims for audit by the deadline set by the government department. Managers of those responsible for submitting grant claims should monitor progress to ensure claims are adequately prepared.

Responsibility Tony Bartlett

Priority Medium

Date 2010/11 claims

Comments

Recommendation 2

Finance officers should monitor to ensure that Mouchel and Human Resources take adequate action to address the issues set out in our action plan in relation to the Teachers Pensions Return.

Responsibility Tony Bartlett

Priority Medium

Date January 2011

Comments

Summary of recommendations per detailed action plans to officers

Claim	Priority	Priority	Priority
	1 = Low	2 = medium	3 = High
NNDR return	2	1	0
Sure Start	0	0	0
Housing & Council Tax Benefit subsidy	3	1	0
Teachers Pensions Return	0	7	3
Disabled facilities	0	0	0