

Certification of claims and returns - annual report

Brighton and Hove City Council

Audit 2010/11



Contents

Introduction.....	3
Summary of my 2010/11 certification work.....	4
Results of 2010/11 certification work.....	5
Summary of recommendations.....	8
Summary of certification fees	9

Introduction

Local authorities claim large sums of public money in grants and subsidies from government departments and other grant-paying bodies and must complete returns providing financial information to governments and departments. My certification work provides assurance to government departments and 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 Commission may, at the request of authorities, arrange to certify claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, the Commission issues certification instructions to auditors setting out the work auditors must complete before they give their certificate. The work varies according to the value of the claim or return and the requirements of the grant-paying body. Broadly for claims and returns:

- for claims below £125,000 I carry out no work;
- for claims between £125,000 and £500,000 I undertake limited tests to agree form entries to underlying records; and
- for claims and returns over £500,000, I plan and perform my work under the certification instruction. I assess the control environment for preparing the claim or return and decide whether to place reliance on it. Depending on the outcome, I test to agree entries to underlying records and eligibility.

I may amend claims and returns where I agree with your officers that this is necessary. My certificate may 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

Overall you have adequate arrangements to prepare claims and returns.

I certified eight claims and returns in 2010/11 under the Commission's certification arrangements. My team carried out a limited review of one claim and a full review of seven claims. Although adequate overall, there has been some deterioration in your arrangements to prepare claims and returns compared with last year. In particular you produced no or inadequate working papers to support entries in two of the eight claims and returns. Last year I raised one recommendation to improve the working papers supporting the Teachers' Pensions return. This year I found no improvement in the quality of working papers supporting the return which was subject to an extensive audit qualification.



I certified one claim outside the Commission's certification arrangements at your request and the request of the grant paying body, UK Sport. The value of claim expenditure certified was about £441,000 and I charged £2,800 for my work. You had satisfactory support for the claim and I certified it without amendment or qualification.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total value of claims and returns certified (excludes housing revenue account subsidy base data return that has no total monetary value and the one claim certified outside the Commission's certification arrangements)	£303.9 million
Number of claims and returns amended because of errors	2
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	3
Total cost of certification work	£52,845

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues.

I set out details of the claims I audited under the Commission's certification arrangements in table 2 below.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification	Reliance on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	£180,329,000	No. The approach to this claim is mandated and is not based on a local assessment of risk.	Nil	Yes
National non-domestic rates return	£92,452,000	Yes	Nil	No
Teachers' pensions	£13,647,000	No	-£5,483	Yes
Sure Start	£12,181,000	No	Nil	No

Claim or return	Value of claim or return presented for certification	Reliance on the control environment?	Value of any amendments made	Was a qualification letter issued?
Pooling of housing capital receipts	£1,207,000	No	Amendment made had no financial impact	No
Disabled facilities	£660,000	No	Nil	No
Housing Revenue Account (HRA) subsidy	-£3,375,000	No	Nil	No
HRA subsidy base data return	Not applicable	No	Nil	Yes

I set out more detailed findings below where I noted weaknesses in your arrangements for to produce specific claims and returns. Detailed recommendations to address the weaknesses are set out in the summary of recommendations.

Teachers' pensions return

The Department of Work and Pensions (DWP) requires me to certify the return for the teachers' pension scheme, which works separately from the Local Government Pension Scheme. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the government. Entries on the return are therefore based on the output from the payroll system.

In both 2008/09 and 2009/10 I reported to you there were delays in getting information to support the claim presented for audit and that audit queries took considerable time to resolve. In 2009/10 I recommended that you produce detailed working papers to support all cells in the return. I also recommended that working papers should allow selection of samples for detailed audit testing, and that you should respond to all audit queries arising promptly.

Although you introduced a new Council payroll system during the period which made production of the return more complex I have concluded the control environment for the claim has worsened and that you have not addressed my recommendation. Specifically:

- you produced insufficient or inadequate working papers to support claim entries. Significant manual adjustments were made to payroll system output to produce the claim. You produced no working papers to support the manual adjustments made and despite undertaking extra work I was not able to conclude the manual adjustments were fairly stated;

- my detailed testing of claim entries identified an error in one out of a sample of ten teachers' employer's contributions. Following this, payroll officers undertook more work to identify any further errors. This work identified 22 more cases where employer's contributions were misstated. I reviewed the additional work undertaken but was unable to conclude that all errors in both employer's and teachers' contributions disclosed on the return had been fully identified; and
- I made a small number of other amendments to the return.

Overall I was unable to conclude the return was fairly stated as a whole because of the volume of issues identified by my work and the resulting level of remaining uncertainty.

Housing and council tax benefits subsidy claim

Councils run the government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the DWP towards the cost of benefits.

Although arrangements to produce the claim remain sound I identified small number of errors in rent rebate expenditure and benefit granted, and council tax benefit expenditure and benefit granted disclosed on the claim. In line with the approach to the claim specified by DWP I asked your officers to undertake more testing of the cells on the claim affected by the errors. This was done to estimate the percentage error rate for each affected cells. I used the error rate to calculate the gross value of errors in the claim which I estimated to be £148,977. I concluded the errors detected as part of my work were confined to cases that were dealt with by your rent rebate team. I made no amendments to the claim based on this but I reported my findings to the DWP in a qualification letter.

HRA subsidy base data return

Communities and Local Government (CLG) pays housing revenue account subsidy (HRAS) in line with determinations made under section 80 of the Local Government and Housing Act 1989. This is to meet any shortfall between expenditure and income on the authority's notional HRA.

I was unable to support two entries on the return as you had not taken supporting evidence from your housing rents system at the time the claim was produced and it is not possible to extract historical data from the system retrospectively.

Summary of recommendations

This section highlights the recommendations from my work and the actions agreed.

Table 3: Summary of recommendations arising from 2010/11 work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
Support all disclosures in claims and returns submitted for audit with adequate working papers. Working papers should agree to the claim or return and contain enough detail to allow samples to be selected for detailed audit testing. The working papers should be produced at the same time the claim or return is completed.	H	Agreed. All working papers will agree to the relevant claim total and will be produced at the time of submitting the claim for audit. Working papers will contain either copies of information from source systems or clear references to source system data to enable effective audit testing.	With immediate effect.	Nigel Manvell, Head of Financial Services.
Ensure that evidence from financial systems and other sources is obtained to support the financial year or project covered by the claim or return. Such evidence should be part of working papers supporting the claim or return.	H	Agreed. Evidence to support claims and returns will be taken from the general ledger and other financial systems and sources as relevant.	With immediate effect.	Nigel Manvell, Head of Financial Services.

Summary of certification fees

This section summarises the fees for my 2010/11 certification work and highlights the reasons for any significant changes 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	£30,940	£31,335	N/A
Pooling of housing capital receipts	£1,342	£1,188	Some additional sample based testing of qualifying receipts was required in 2010/11.
HRA subsidy	£2,892	£1,963	Some additional sample based testing was required in 2010/11.
Housing finance base data return	£5,862	£2,470	The claim was treated as higher risk in 2010/11 as the return is used to inform debt allocation as part of the introduction of HRA Self-Financing from 2012/13. This led to more detailed testing using higher sample sizes. There were also some weaknesses in your arrangements to produce this claim compared to last year which are set out in more detail in this report.
National non-domestic rates return	£1,480	£5,857	The claim was treated as lower risk in 2010/11 when no detailed sample testing was undertaken to support the claim audit.

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Teachers' pensions return	£5,126	£4,995	N/A
Sure start	£3,044	£2,578	There was some deterioration in the working papers produced to support the claim compared to last year.
Disabled facilities	£1,659	£2,723	The value of claim expenditure reduced compared to last year and the audit was undertaken more efficiently.
Reporting and coastal protection scheme audited in 2009/10 but not in 2010/11	£500	£2,386	N/A – not a like for like comparison.
Total	£52,845	£55,495	

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.
Image copyright © Audit Commission.

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.



www.audit-commission.gov.uk

January 2012

