



## South Derbyshire District Council

Grants Report 2008-09

23 March 2010

<b>Contents</b>		<b>Page</b>
<b>1</b>	<b>Executive summary</b>	<b>1</b>
<b>2</b>	<b>Detailed findings</b>	<b>4</b>

## **Appendices**

- A Approach and context to certification**
- B Details of claims and returns certified in 2008-09**
- C Action plan**
- D Content of working papers**

# 1 Executive summary

## Introduction

- 1.1 The Council received 6 grant claims and returns from government departments and other bodies requiring external audit certification in 2008-09, representing income in excess of £33 million.
- 1.2 Grant Thornton, as the Council's external auditor and acting as the agent of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 A summary of all claims and returns subject to certification is provided at Appendix B, together with the certification fee and outcome of our review.
- 1.7 The key messages from our review are summarised in Exhibit One below, and set out in detail in the next section of the report.

### Arrangements for certification:

- amounts claimed below £100,000 - no certification
- amounts claimed between £100,000 - £500,000 - agreement to underlying records
- amounts claimed over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

## Exhibit One: Key Messages

Aspect of certification arrangements	Action
No grants were submitted to us later than the deadline required by the paying department in 2008/09. This shows a marked improvement from the prior year, when 2 grants were submitted late, and we are pleased to note that this represents a better level of compliance than we experience at most other Councils.	The Council should ensure that the procedures and controls currently in place to enable grants to be submitted on time are maintained in forthcoming years.
2 of 6 grants were qualified. This represents an improvement on the prior year where 3 of the 6 claims certified were qualified.	Although the proportion of qualifications has decreased, there are still steps that can be taken by the Council to further improve performance in this area. These steps are set out in the Management Arrangements section of this report and at Appendix C.
Grant preparer availability has been good and working papers have generally been sufficient for our purposes	Working papers presented for audit are generally sufficient but recommendations have been made within the Management Arrangements section of this report, to make the audit process smoother, through the improvement of working papers and strengthening of review processes.

### The way forward

- 1.8 We have made a number of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for audit. This will reduce the risk of penalties for late submission, potential repayment of grant and additional audit fees.
- 1.10 The new use of resources assessment in 2009 required auditors to consider the results of certification work when undertaking the Use of Resources assessment, including, in particular, the impact of housing benefit and council tax testing on data quality. The 2010 assessment will be further integrated with grant certification work, including consideration of the outcome of a wider range of grant claims.

### **Acknowledgements**

- 1.11 We would like to take this opportunity to thank the Council's Officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**23 March 2010**

## 2 Detailed findings

### Introduction

- 2.1 This section of the report summarises the main issues arising from the certification of grants and returns in 2008-09. Further details of the individual grants that have been certified are provided at Appendix B, and the Action Plan at Appendix C sets out our recommendations and improvement opportunities arising from the audit of individual grants.

### Performance against targets

- 2.2 Exhibit Two summarises the Council's performance against key certification performance targets for the six claims and returns submitted for audit in 2008-09 compared to 2007-08:

#### Exhibit Two: Performance against key certification targets

Performance measure	Target	Target met?	Achievement in 2008-09		Achievement in 2007-08		DoT *
			No.	%	No.	%	
Total number of claims	6		6	n/a	6	n/a	
Claims submitted by Council deadline	100%	✓	6	100%	4	66.7%	↑
Claims certified by auditor deadline (or within 3 months of receipt if later)	100%	✓	6	100%	4	66.7%	↑
Claims certified without amendment or qualification	100%	✗	2	33.3%	2	33.3%	↔
Claims amended	0%	✗	2	33.3%	3	50%	↑
Claims qualified	0%	✗	2	33.3%	3	50%	↑
Claims amended and qualified	0%	✓	0	0%	2	33.3%	↑

\* Direction of Travel

- 2.3 This analysis of performance against targets shows improvement across a range of measures and provides a platform for further improvement in the future.
- 2.4 Further details on each claim and return are set out at Appendix B. This provides more explanation of each claim, as well as possible areas for improvement.
- 2.5 We charged a total fee of £46,136 for the certification of claims and returns in 2008-09 compared to £75,414 in 2007-08. Details of fees charged for specific claims are included within Appendix B. We have included a number of recommendations at Appendix C, the implementation of which will improve the efficiency of our work, reducing the time required for certification and therefore our fee.

### **Management arrangements**

- 2.6 Good arrangements are required for successful management of the certification of grant claims and returns. The results of our review of aspects of the management arrangements in place are set out below. Associated recommendations for improvement are included at Appendix C.

### **Grants co-ordination**

- 2.7 Best practice for grant arrangements includes the identification of a grants register co-ordinator, generally based within the Council's finance department, who maintains the Council's grant register and acts as a key point of contact for us when making arrangements to undertake our certification work. The Council may wish to consider the formal introduction of this role, although we acknowledge that the majority of our arrangements are made directly with the relevant department and that existing arrangements work well.

### **Quality of working papers**

- 2.8 Claims and returns should be supported by working papers, that are sufficiently detailed to allow any entry on the claim to be readily traced to the underlying evidence that supports it. Documentation provided was generally of a good standard for our purposes but, in some cases, referencing to supporting evidence was not effective and additional working papers needed to be requested. Appendix D contains advice on the content of working papers according to the 2004 report by the Audit Commission 'Claims and Returns: Good Practice for Authorities'.

### **Sign off arrangements and submission procedures**

- 2.9 The claims are signed off by the compiler/preparer and then in most cases they are subject to an informal review by another officer. We recommend formalising the process by introducing checklists to confirm that the appropriate work has been performed and reviewed prior to the claim to be submitted.
- 2.10 The sign off of a checklist indicates that the signatory is satisfied that the working papers adequately support the claim.

### **Significant findings in relation to individual claims and returns**

- 2.11 A summary of all claims and returns we have certified is attached at Appendix B, together with the certification fee and outcome of our review.

2.12 Of the claims submitted for audit the most significant findings were in relation to the following qualified claims:

- HOU02 HRA Subsidy Base Data Return;
- BEN01 Housing and Council Tax Benefits Scheme.

2.13 Recommendations for improvement are included at Appendix C.

#### **HRA Subsidy Base Data Return**

2.14 Housing Revenue Account subsidy (HRAS) is payable by/to Communities and Local Government (CLG), to reflect any shortfall/surplus between expenditure and income on the Council's notional housing revenue account (HRA).

2.15 The dwellings analysis within the claim must be supported by a detailed breakdown which agrees to prime records. In practice this means that the analysis, must be supported by either a comprehensive survey of dwelling types in the year; or a comprehensive survey in the past, together with a reliable and accurate system for recording and classifying acquisitions and disposals in subsequent years; or other supporting records, for example detailed property holding records.

2.16 As the Council does not hold such comprehensive records for all archetypes, the level of testing we were able to undertake on the dwellings analysis was limited, resulting in our certification being qualified. Testing also identified a number of classification errors being identified details of which are set out at Appendix C.

#### **Housing and Council Tax Benefits Scheme**

2.17 Local authorities responsible for administering housing benefit and council tax benefit schemes claim subsidies from the Department for Work and Pensions ('DWP') towards the cost of benefits.

2.18 Our initial testing identified errors in three of the four areas subject to sampling, namely rent rebates (tenants of non-HRA properties), rent allowances and council tax benefit.

2.19 Following the Audit Commission's '40+' approach, the Council's benefits team reviewed a sample of cases to assess the identified errors. The results of this work were assessed and dip sampled by Grant Thornton to confirm the accuracy of the findings.

2.20 Extended testing identified further errors, the impact of which was an extrapolated net overclaim of £28,297, against an overall claim of £16,660,309, being reported in our qualification letter to DWP.

2.21 As set out at Appendix B, overall fees for the certification of this claim decreased significantly compared to the prior year when the legacy system, RealityX, was replaced by Academy.

2.22 Recommendations have been identified at Appendix C to assist the Council in improving the quality of claims processing and supporting documentation.



## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £100,000 - no certification required;
- for amounts claimed above £100,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council; and
- for amounts claimed over £500,000 - certifying that the claim agrees to underlying records of the Council and an assessment of the control environment. Where reliance is not placed on the control environment, detailed testing is performed.

### Roles and responsibilities

The following table sets out the roles and responsibilities of the parties involved in the certification of claims and returns.

Party	Role and responsibility
Grant paying body	Sets grant conditions and the deadlines for submission of the pre-certificated and certified claim
Audit Commission	Issues certification instructions
Council	Submits claims and returns to the Appointed Auditor within grant paying body submission deadlines. Ensures adequate documentation is maintained to support compilation of claims and returns.
Appointed Auditor	Certifies claims in accordance with Audit Commission instructions and within certification deadlines.

### Scope

We assess the Council's arrangements for submission of grant claims for certification. We do not review the Council's wider arrangements for managing external funding or maximising its entitlement to external funding.

## B Details of claims and returns certified in 2008-09

Ref	Claim	Claim value (£)	Amended? Y/N	Amendment value (£)	Qualified? Y/N	Fee 2008/09 (£)	Fee 2007/08 (£)
BEN01	Housing and Council Tax Benefits Scheme	16,660,309	N	n/a	Y	33,430	62,000
CFB06	Pooling of Housing Capital Receipts	329,120	N	n/a	N	920	2,210
HOU01	HRA Subsidy Return	(2,960,995)	Y	£nil effect on overall subsidy entitlement	N	3,055	3,299
HOU02	HRA Subsidy Base Data	n/a	N	n/a	Y	3,355	3,402
HOU21	Disabled Facilities Grant	261,000	N	n/a	N	1,065	1,003
LA01	National Non Domestic Rates Return	19,507,137	Y	2,646	N	4,311	3,500
<b>TOTAL</b>		<b>33,796,571</b>				<b>46,136</b>	<b>75,414</b>

## C Action plan

Ref	Claim	Recommendation	Priority	Management response and implementation details
1.	<b>Grants co-ordination</b>	<p>The Council does not have a grants register co-ordinator.</p> <p>The Council may wish to consider the formal introduction of this role, so that we have a key point of contact when making arrangements to undertake our certification work, although we acknowledge that the majority of our arrangements are made directly with the relevant department and that existing arrangements work well.</p>	Low	<p>Acknowledged that the current arrangements work well.</p> <p>Most arrangements are already made through the Chief Accountant and Revenues Manager, however, with the implementation of the Corporate Services Partnering Project scheduled for this year, all logistical arrangements for 2009/10 will be made through the Head of Finance.</p> <p><b>Head of Finance and Property Service - Immediate</b></p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
2.	<b>Sign off arrangements and submission procedures</b>	<p>Claims are signed off by the compiler/preparer and then in most cases they are subject to an informal review by another officer.</p> <p>We recommend formalising the process by introducing sign off checklists for the claim preparer to ensure that the appropriate work has been performed, reviewed and evidenced prior to the claim to be submitted.</p>	Medium	<p>Accepted.</p> <p>We have discussed this with Grant Thornton and will introduce a sign off checklist for the grant preparer to complete. This will be a generic checklist applicable to all claims.</p> <p><b>Head of Finance and Property Service - May 2010</b></p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
3.	<b>BEN01 - Housing and Council Tax Benefits Scheme</b>	<p>Our testing of Non HRA (homeless board and lodge) cases identified a number of errors from the population of 59 cases tested. The most significant errors can be summarised as follows:</p> <ul style="list-style-type: none"> <li>• no third party evidence existed for 18 cases to verify the period of stay and the amount charged;</li> <li>• ineligible charges for 8 cases were incorrectly treated;</li> <li>• incorrect application of backdating expenditure for 3 cases; and</li> <li>• incorrect classification of an overpayment for 1 case.</li> </ul> <p>All cases included within this category were tested, and resulted in a reduction to the headline cell of £6,692.</p> <p>We recommend that the Council thoroughly reviews all documentation used to support the claimants history for Non HRA cases to ensure that the correct rate of subsidy is being claimed.</p>	High	<p><u>Period of stay/charge</u> Staff within Housing have been reminded of the evidence required to support Non HRA claims. <b>Head of Customer Services - Implemented</b></p> <p><u>Other points</u> Additional guidance has been issued to staff and 2009/10 claims are currently being reviewed, and if necessary amended, for the issues raised in 2008/09. <b>Revenues and Benefits Manager - 31 March 2010</b></p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
4.	<b>BEN01 - Housing and Council Tax Benefits Scheme</b>	<p>Testing identified a number of cases, affecting all categories, where the overpayment cell had been misclassified. This resulted in extended testing for which the results were extrapolated.</p> <p>We recommend that the Council provide training to all staff on the classification categories for overpayment cells.</p>	Medium	<p>Staff have been made aware of the impact of misclassification of overpayments on subsidy and reminded of the classification criteria. All staff also attended a specialist training event on the 24 February 2010.</p> <p><b>Revenues and Benefits Manager / Head of Customer Services - Implemented</b></p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
5.	<b>HOU02 - HRA Subsidy Base Data</b>	<p>As noted in previous years, the Council does not hold comprehensive records to support the dwellings analysis within the claim, which resulted in our certification being qualified.</p> <p>Limited testing was possible using housing system records and tracing these to property records from the Beacon valuation carried out in 2009. This testing suggested considerable inaccuracy in the claim as numerous classification errors<sup>1</sup> were noted.</p> <p>We are aware that the Council has considered undertaking an exercise to provide these records in the past but considered that the cost outweighed the benefit. We continue to recommend that the Council puts in place comprehensive records for all archetypes.</p>	High	<p>We are now intending to work towards this. However, it is uncertain if we can have all the prime records in place by August 2010, when the next claim is due.</p> <p>We will keep the Auditors updated on progress.</p> <p><b>Head of Finance and Property Service - Ongoing</b></p>

<sup>1</sup> 9 out of 30 terraced properties tested were misclassified between large and small properties; 7 out of 30 properties tested were in the incorrect age band; 2 out of 32 flats were incorrectly classified as either houses, semi-detached or terraced; and 5 out of 20 flats tested were incorrectly classified between low-rise and medium-rise flats.

Ref	Claim	Recommendation	Priority	Management response and implementation details
6.	<b>LA01 - National Non Domestic Rates Return</b>	<p>The Council did not undertake a review, and write off irrecoverable NNDR debts, in the year in 2008/09. As a result any losses in collection were not offset against the Council's contribution to the pool for 2008/09 as permitted by the guidance.</p> <p>We recommend that the Council undertake such a review on an annual basis.</p>	Medium	<p>A full review of NNDR debt was carried out in November 2009 to identify irrecoverable amounts.</p> <p>A quarterly submission process for irrecoverable debts was implemented during November 2009.</p> <p>In addition, amendments to the debt write off policy were approved by Finance and Management Committee in March 2010, which will facilitate regular write offs.</p> <p><b>Head of Customer Services - Implemented</b></p>



Ref	Claim	Recommendation	Priority	Management response and implementation details
7.	<b>LA01 - National Non Domestic Rates Return</b>	<p>The return submitted for certification required three amendments due to entries not reconciling back to the Council's underlying records.</p> <p>To increase efficiency and compliance within the certification process, we recommend that:</p> <ol style="list-style-type: none"> <li>1. the working papers supporting the claim include copies of system prints, detailed references and /or reconciliations as appropriate to clearly document the trail to source records; and</li> <li>2. the review process be extended to include evidenced test checks of claim figures to supporting documentation.</li> </ol>	Medium	<p>1. This issue arose during 2008/09 as a result of system prints being deleted by an upgrade to Academy. To reduce the risk of this issue reoccurring, we have introduced additional back-up processes.</p> <p><b>Revenues and Benefits Manager - Implemented</b></p> <p>2. Agreed - this links to recommendation number 2 above. For 2009/10 a checklist and detailed audit trail to source reports will be put in place.</p> <p><b>Revenues and Benefits Manager - June 2010</b></p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
8.	<b>LA01 - National Non Domestic Rates Return</b>	<p>The Council was unable to generate all relevant reports from the Academy system to support entries within the NNDR return. Instead reliance is placed on transaction listings from Academy being exported into excel spreadsheets.</p> <p>We recommend that the Council raise this issue with the software provider to determine whether these reports can be system generated.</p>	Low	<p>This matter links to recommendation 7 above. The deletion of various system prints during an Academy upgrade resulted in SQL reports having to be exported from Academy to support the claim. We have raised this with Academy and have introduced additional back up procedures to reduce the risk of this being an issue in the future.</p> <p><b>Revenues and Benefits Manager - Implemented</b></p>

## D Content of working papers

The following is taken from paragraph 28 of the Audit Commission briefing 'Claims and returns - good practice for authorities' released in 2004. Naturally, not all of the suggested working papers will be required; it will be dependent on the complexity of the claim.

Authorities should set standards for documentation and working papers and take steps to ensure that the standards are met by all those responsible for assisting with the compilation of a claim or return. Working papers should include:

- the date of preparation and the name of the officer preparing the working papers;
- the appropriate cells on the claim or return to which the paper relates;
- cross references to the system or copies of system printouts from which the information is taken;
- copies of original approvals; subsequent variations and any other correspondence with the grant-paying body;
- a reconciliation of income and expenditure figures in the claim or return to working papers and account codes;
- details of payments made on account, supported by relevant advice notes from the grant-paying body;
- a reconciliation of the balance on each claim or return with the accounts at the date of the chief finance officer's certificate;
- a comparison of expenditure with approvals;
- an explanation of significant variances from the previous period and from forecasts;
- details of large journal transfers, with voucher references;
- notes on the basis of any expenditure apportionment;
- a description of relevant internal controls and a note on the extent of internal audit cover with cross-references to internal audit files;
- evidence that contracts were let in accordance with standing orders where the claim or return includes charges for work carried out by a third party under contract; and
- evidence of independent review of expenditure, which is included in the claim or return, but incurred by another body.



**[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)**

© 2010 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication