



## **South Derbyshire District Council**

Certification work report 2009/10

February 2011

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# 1 Introduction and approach

## Introduction

- 1.1 Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As South Derbyshire District Council's (the Council) external auditors, Grant Thornton UK LLP undertakes certification work at the Council, acting as an agent of the Audit Commission.
- 1.2 The Audit Commission makes certification arrangements with grant-paying bodies: this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

## Our certificate

- 1.3 Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:
  - without qualification;
  - without qualification but with agreed amendments incorporated by the authority; or
  - with a qualification letter (with or without agreed amendments incorporated by the authority).
- 1.4 Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

## Key messages

- 1.5 A summary of all claims and returns subject to certification for 2009/10 is provided at Appendix A, together with the certification fee and outcome of our review.
- 1.6 The key messages from our review are summarised in Exhibit One overleaf, and set out in detail in the next section of the report.

### Certification arrangements:

- amounts claimed below £125,000 – no certification
- amounts claimed between £125,000 and £150,000 – agreement to underlying records
- amounts claimed over £150,000 – 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
<p>Our testing of the Council's Housing and Council Tax Benefit Subsidy claim has identified significant problems which have resulted in a qualification report that indicates a clawback of £158,513.</p>	<p>The Council should, as a priority, focus on the areas of weakness identified this year to ensure they do not recur in the future.</p>
<p>Two grants were submitted to us later than the deadline required by the paying department in 2009/10. This shows a decline in performance from the prior year, when no grants were submitted to us late.</p>	<p>The Council should strive to ensure that claims and returns requiring certification are submitted on time and return to 100% compliance, as achieved in 2008/09.</p>
<p>Two of the six claims submitted for certification in 2009/10 resulted in a qualified opinion - this was also the case in 2008/09. In both years the qualifications have been in respect of the HRA Subsidy Base Data Return and the Housing and Council Tax Benefits Scheme.</p>	<p>As the proportion of qualifications has not improved in 2009/10, there continues to be steps that can be taken by the Council to improve performance in this area. These steps are set out in the Management Arrangements section of this report and at Appendix B.</p>
<p>Grant preparer availability has been good and working papers have generally been sufficient for our purposes.</p>	<p>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.</p>

## 2 Results of our certification work

### Key messages

- 2.1 For the financial year 2009/10, we have certified six claims and returns for the Council, representing income in excess of £38 million. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.
- 2.2 The Council's performance in preparing claims and returns is summarised in the table below.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Target met?	Achievement in 2009-10*		Achievement in 2008-09		DoT*
			No.	%	No.	%	
Total number of claims			6	n/a	6	n/a	
Claims submitted by Council deadline	100%	✘	4	66.7%	6	100%	↓
Claims certified by auditor deadline (or within 3 months of receipt if later)	100%	✘	5	83.3%	6	100%	↓
Claims certified without amendment or qualification	100%	✘	3	50%	2	33.3%	↑
Claims amended	0%	✘	2	33.3%	2	33.3%	↔
Claims qualified	0%	✘	2	33.3%	2	33.3%	↔
Claims amended and qualified	0%	✘	1	16.7%	0	0%	↓

\* Direction of Travel

- 2.3 This analysis of performance against targets shows that there continues to be improvement opportunities across a range of measures and provides a platform for improvement in the future.
- 2.4 Details of the certification of all claims and returns are included at Appendix A. Where we have concluded that an item is significant, further details are included below in this section of our report at paragraph 2.13.
- 2.5 Where claims and returns have been amended or qualified and we have identified opportunities for improvement in the compilation in future years, we have made recommendations to support the Council's continuous improvement. These are included in the action plan at Appendix B.

**Certification work fees**

- 2.6 Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

**Exhibit Three: Hourly rates for certifying claims and returns**

Role	2009/10	2008/09
Engagement lead	£325	£310
Manager	£180	£170
Senior auditor	£115	£110
Other staff	£85	£80

- 2.7 Our fee for certification work at the Council in 2009-10, excluding the Housing and Council Tax benefits subsidy return, was £13,366, compared to £12,706 for 2008/09. Our fee for Housing and Council Tax benefit in 2008/09 was £33,430. We are in the process of producing our invoice for this qualified claim but we anticipate our fee for 2009/10 being well in excess of that charged in 2008/09.
- 2.8 Details of our fee by claim and return and how this compares to last year are included at Appendix A.
- 2.9 We have also agreed to undertake testing on the Council's behalf of the extended testing for the Housing and Council Tax benefit subsidy return to assist in quantifying the errors identified in the claim. Our fee for this work is outside of our core audit responsibilities and will be billed separately. This will be reported to Audit-Sub Committee during our 2010/11 audit. We will continue to discuss with Council officers how efficiencies can be made in the certification process in forthcoming years.

**Management arrangements**

- 2.10 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 B.

### **Grants co-ordination**

- 2.11 We reported last year that it is best practice for grant arrangements include 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. As a result of our recommendations, the Council amended its procedures and grants are now coordinated through the Head of Corporate Services. We are pleased to note that this appears to be working well.

### **Quality of working papers**

- 2.12 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.

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

- 2.13 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 being submitted.
- 2.14 The sign off of a checklist indicates that the signatory is satisfied that the working papers adequately support the claim.

### **Significant issues**

- 2.15 Amendments and qualifications, where applicable, are set out at Appendix A on a claim by claim basis. This section provides further detail of any significant issues relating to those amendments and qualifications as well as any other issues identified during the course of our 2009/10 certification work that we consider appropriate to bring to your attention.

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

- 2.16 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.
- 2.17 Our initial testing identified errors in three of the four areas subject to sampling, namely rent rebates (tenants of non-HRA properties), rent rebates (tenants of HRA properties) and rent allowances.
- 2.18 Following the Audit Commission's '40+' approach, Grant Thornton reviewed a sample of 40 cases for each cell to assess the identified errors.
- 2.19 This extended testing identified further errors. We have quantified the impact of these errors in our qualification letter to be an overclaim by the Council of £158,513. The Council has agreed our findings with the exception of one issue relating to rent rebates which is currently being reviewed to determine whether it can be isolated, avoiding extrapolation.
- 2.20 Recommendations have been identified at Appendix B to assist the Council in improving the quality of claims processing and supporting documentation.

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

- 2.21 Housing Revenue Accounts 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).
- 2.22 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.
- 2.23 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 B.

#### **Acknowledgements**

- 2.24 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**

**February 2011**



## A Details of claims and returns certified for 2009/10

Ref	Claim	Claim value 2009/10	Amended? Y/N	Effect on Balance of Grant due to the Council (£)	Qualified Y/N	Fee 2009/10 (£)	Fee 2008/09 (£)	Fee variance (£)
CFB06	Pooling of Housing Capital Receipts	354,226	N	n/a	N	1,320	920	400
HOU01	HRA Subsidy Return	(3,163,301)	Y	n/a	N	2,815	3,055	(240)
HOU02	HRA Subsidy Base Data Return	n/a	Y	See below <sup>1</sup>	Y	3,783	3,355	428
HOU21	Disabled Facilities Grant	258,000	N	n/a	N	933	1,065	(132)
LA01	National Non Domestic Rates Return	21,122,686	N	n/a	N	4,515	4,311	204
	<b>Total, excluding BEN01</b>	<b>18,571,611</b>				<b>13,366</b>	<b>12,706</b>	<b>660</b>
BEN01	Housing and Council Tax Benefits Scheme	20,061,374	N	(158,513)	Y	o/s	33,430	o/s <sup>2</sup>

<sup>1</sup> Cell F037MM was amended from 2,264 to 2,266; cell F001RI was amended from £93,722,872 to £93,663,912; cell F002RI was amended from £30,658 to £30,639; cell F006OE was amended from £4,085 to £2,248.

<sup>2</sup> A fee has not been reported for Housing and Council Tax benefit subsidy as our testing has only just been completed and we are in the process of preparing our fee note. It is anticipated that the fee for this work will be in excess of that charged for 2008/09 as the number of errors identified for additional testing is higher.

## B Action plan

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
Sign off arrangements and submission procedures	<p>Claims are signed off by the compiler/preparer and, in most cases, these are subject to an informal review by another officer.</p> <p><b>Recommendation</b>                      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 being submitted. As a minimum, the informal review should be documented to evidence this control occurring.</p>	M	<p><b>Management response:</b> A new process was introduced for 2009/10 to strengthen sign off and internal review procedures. Evidence suggests that this was not followed in every case. This will be pursued for 2010/11.</p> <p><b>Responsible officer :</b> Head of Corporate Services</p> <p><b>Implementation date:</b> April 2011</p>
BEN01: Housing and Council Tax Benefits Scheme	<p>A number of benefit cases were identified as having been processed with incorrect earnings figures, largely due to typographical errors. Whilst these did not affect entitlement to subsidy in 2009/10, it can result in inaccurate records and adjustments.</p> <p><b>Recommendation</b>                      We recommend that the Council ensures all case details are entered as accurately as possible so that claimant records reflect the true position of the respective claimant, thereby resulting in an accurate benefit assessment.</p>	M	<p><b>Management response:</b> The Council is already working with assessors to ensure greater accuracy. Consideration is also being given to introducing an IT based solution for Quality Assurance work, along with Northgate.</p> <p><b>Responsible officer:</b> Client Services Manager</p> <p><b>Implementation date:</b> April 2011</p>

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
BEN01: Housing and Council Tax Benefits Scheme	<p>In line with external guidance, the Council is required to obtain at least two payslips for those claimants in receipt of monthly payslips. Testing identified a number of cases where benefit had been awarded based on only one monthly payslip, thereby potentially resulting in the Council awarding an inaccurate benefit rate.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council ensures that it receives sufficient and adequate evidence to support claimants earnings, with at least two monthly payslips. This will ensure that the Council awards the correct level of benefit based on an accurate assessment of the claimants income.</p>	M	<p><b>Management response:</b> The requirement for the correct number of payslips is also being reiterated. Where these are not available we will record the reason why and detail the approach taken for the calculation of earned income, e.g. year to date earnings used instead.</p> <p><b>Responsible officer:</b> Client Services Manager</p> <p><b>Implementation date:</b> April 2011</p>

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
BEN01: Housing and Council Tax Benefits Scheme	<p>Testing identified one rent allowance case where the Council had not referred the case to the appropriate rent officer by 31 May 2010 to confirm the eligible rent charge.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council ensures that those cases requiring a referral to the Rent Officer, are referred on a timely basis in accordance with Housing Benefit Regulations, and that the Decision is accurately reflected in Academy. This will ensure the correct rental charge is applied, and consequently, the correct rate of benefit is awarded</p>	M	<p><b>Management response:</b> The recommendation is accepted. Staff will be reminded of the ROD requirements.</p> <p>It is clear that the existing approach to sample checking unfortunately did not find the range of issues identified in the audit. It is therefore proposed that the Council and Northgate as its benefit processing supplier both adopt the HBCOUNT methodology with a clear focus and regular review of the issues raised in this report.</p> <p>Enhanced checks will be made as part of the validation process for new claims. The adequacy of the 52 week renewal process will be reviewed.</p> <p><b>Responsible officer:</b> Client Services Manager</p> <p><b>Implementation date:</b> 1 April 2011</p>

Claim or return	Recommendation	Priority (H/M/L)	Management response & implementation details
HOU02: HRA Subsidy Base Data	<p>As noted in prior years, the Council does not hold comprehensive records to support the dwellings analysis within the claim, which has again resulted in our certification being qualified.</p> <p>Limited testing was possible using records held on the housing system 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>3</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.</p> <p><b>Recommendation</b>                      We recommend that the Council continues to keep this situation under review.</p>	H	<p><b>Management response:</b> It is considered that the Council has undertaken as much work as possible, bar reassessing every property. To do so would incur additional costs and with the likely demise of the housing subsidy system in March 2011, it is considered that any further action is unwarranted at this time.</p> <p><b>Responsible officer:</b> N/a</p> <p><b>Implementation date:</b> N/a</p>

<sup>3</sup> 1 out of 20 properties sampled was incorrectly classified by its structural build as non-traditional property but should have been analysed as traditional build; 8 out of a sample of 20 properties were misclassified between small and large properties.

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