

# Taunton Deane Borough Council

## Corporate Governance Committee - 11 March 2013

### Grant Claims Report 2011/2012

#### Report of the Strategic Director (Shirlene Adam)

(This matter is the responsibility of the Leader of the Council, Councillor John Williams)

#### **Executive Summary**

This report introduces the Certification of Claims and Returns report 2011/12 – prepared by our external auditors, (and set out in an Appendix to this report).

The report, which will be presented by our External Auditors, summarises their findings from their 2011/12 review work.

#### **1. Background**

- 1.1 The Audit Commission has finalised its review of the Councils arrangements to prepare grant claims.
- 1.2 Their full report, along with the detailed recommendations is set out in Appendix 1.

#### **2. Financial Issues / Comments**

- 2.1 The claims reviewed by the Audit Commission for 2011/12 related to expenditure totalling £82m. This is clearly a significant financial matter for the authority and we must make sure that proper arrangements are in place to meet the “conditions” of the grants.
- 2.2 The report highlights several areas where improvements can be made and the action plan reflects this. The action plan will be monitored to ensure the issues are progressed.

#### **3. Legal Comments**

- 3.1 There are no legal implications from this report.

#### **4. Links to Corporate Aims**

- 4.1 No direct implications.

#### **5. Environmental and Community Safety Implications**

- 5.1 No direct implications.

**6. Equalities Impact**

6.1 No implications.

**7. Risk Management**

7.1 Any risks identified will feed in to the corporate risk management process.

**8. Partnership Implications**

8.1 The Strategic Director and the Internal Audit Team (SWAP – South West Audit Partnership) will take the findings of this report into account when identifying the areas of risk to be audited next year.

**9. Recommendation**

9.1 Members are requested to note the Certification of Claims and Returns report from the Councils External Auditors.

**Contact Officers:**

Shirlene Adam Strategic Director 01823 356310  s.adam@tauntondeane.gov.uk	Maggie Hammond Strategic Finance Officer 01823 358698  m.hammond@tauntondeane.gov.uk
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## **Taunton Deane Borough Council**

Certification work report 2011/12

January 2013

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# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some three to eight months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Grant Thornton and the Audit Commission have certified four claims and returns for the financial year 2011/12 relating to expenditure of £82 million.
- 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 Three of the four claims reported in this certification report were completed by the Audit Commission prior to our appointment as the Council's auditors on 1 November. The findings set out in this report therefore represent the some of the results of your previous auditors' work.
- 1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

### Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

### Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All four claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Two of the four claims were amended and one of these was qualified as well. The auditor amended the pooling of housing capital receipts to increase the amount payable to the national pool because a capital allowance was not eligible. The housing benefit and council tax benefit claim was amended and a qualification letter was issued. This claim is complex and many local authorities have amendments and qualification letters issued.
Supporting working papers	Staff in the finance section, revenues and benefits have been very helpful during our certification work. There was additional time spent on the pooling of housing capital receipts because of a lack of evidence on file to support a capital allowance. If the Council wants to claim capital allowances in future it needs to ensure that it has evidence to support the eligibility.

#### 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 certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

#### Acknowledgements

- 1.10 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**January 2013**

## 2 Results of our certification work

### Key messages

- 2.1 We and the Audit Commission have certified four claims and returns for the financial year 2011/12 relating to expenditure of £82 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
<b>Total claims/returns</b>		4		6		
Number of claims submitted on time	100%	4	100	6	100	→
Number of claims certified on time	100%	4	100	5	83	↑
Number of claims certified with amendment	0%	3	75	5	83	→ one claim each year not amended
Number of claims certified with qualification	0%	1	25	1	17	→

- 2.3 This analysis of performance shows that:

- the number of claims that required certification has reduced. HRA self-financing has meant that the base data return for housing stock is no longer required and the Department for Communities and Local Government (DCLG) no longer requires the audit certification of disabled facilities grants.
- the Council has had fewer claims amended in 2011/12 than in 2010/11.

- 2.4 Details on the certification of all claims and returns are included at Appendix B.

- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.

- 2.6 We charged a total fee of £7,263 to complete the certification of the housing benefit and council tax benefit and to complete this report in 2011-12. In addition, your previous auditors the Audit Commission, charged a fee of £24,313 giving a combined total fee of £31,576 against an indicative budget of £33,000, as communicated in the fee letter of 8 April 2011. Details of fees charged for specific claims and returns are included at Appendix B.

### **Significant findings**

- 2.7 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

#### **Certification of Housing Benefit and Council Tax Benefit**

- 2.8 The certification instruction is issued by the Audit Commission with the agreement of the relevant paying department (in this case the Department for Work and Pensions). It sets out the number of benefit cases that we are required to test in our initial sample. For Taunton Deane Borough Council the initial sample was 80 cases.
- 2.9 The certification instruction also prescribes additional testing when errors have been found in the initial sample. We found errors in these initial samples and additional cases were tested by the Council.
- 2.10 In response to our findings, the Council amended the claim and we issued a qualification letter to the grant paying department (DWP). A qualification letter has been issued for the past five years. To put this into context, this is a highly complex claim and many councils have their claims qualified.
- 2.11 The claim was amended by £2,531, reducing the amount the Council owes to the Department for Work and Pensions.
- 2.12 Where there has been 100% testing (i.e. all entries within the cell) or where the error is shown to be isolated there is no requirement to report the issue in the qualification letter. The following issues were identified from the audit but not reported in the qualification letter:
- Incorrect classification of one claim under Modified Scheme (war pensions) – the same case that was identified in the previous year. Every modified scheme was examined and no further errors were identified.
  - Rent rebate overpayment was incorrectly classified as current year when it should have been classified as prior year. The Council reviewed the overpayments in the final week of 2010/11. There were no further misclassifications and the claim was amended. This error was isolated and there was no need to report in the qualification letter.
  - There was a rent rebate overpayment that was incorrectly classified as prior year when it should have been classified as current year. All cases in this cell were reviewed and no further errors were identified. The claim was amended. This error was isolated and there was no need to report in the qualification letter.
- 2.13 The following issues were reported in the qualification letter:
- One case of council tax benefit overpayment was incorrectly classified as eligible error when it should have been local authority error. The Council reviewed a further 40 cases and we re-performed a sample and found no further errors.
  - The Council had not run a particular validation check report issued by the software supplier before preparing the return. The Council ran the report and identified a



potential error of £388, which was to the advantage of the Department. The Council was unable to prove to us that all such excess benefit was eligible so the claim was not amended.

### **National Non Domestic Rates Return NNDR3**

- 2.14 The return was certified without amendment or qualification.

### **Certification of Housing Revenue Account Subsidy**

- 2.15 The Council had used the housing stock figure from the Statement of Accounts of 6030. However, the rules for completing the form required the figure to agree to the closing figure from the previous year's return of 6015. The difference is attributed to demolitions, which were expected at the end of the previous year. The Council amended the return. There was no effect on the subsidy payable.

### **Certification of Pooling of Housing Capital Receipts Return**

- 2.16 The Council claimed a capital allowance for one property sold at auction where it appears that the person who paid for it is still responsible for paying the council tax. The Council has not been able to provide any evidence that the purchaser did not intend to occupy it. Consequently, it was not eligible to be excluded from the pooling return. Following discussions with the Department for Communities and Local Government the Council amended the claim to include the capital receipt

## 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 £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

### Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, 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).

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.

### **Certification fees**

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.

<b>Role</b>	<b>2011/12</b>	<b>2010/11</b>
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

## B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended ?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing benefit and council tax benefit scheme	£37,454,401	Yes	increased by £2531 to £37,456,932	Yes	£18,818	£27,083	The fee varies from year to year depending on the complexity of the cases sampled. 2010/11 was a low fee: in 2009/10 the fee was £25,044.  Additional time was spent on the qualification letter. The Council had not run a bug report before preparing the claim. The results had to be followed up. All entries in some cells were reviewed by the Council following errors in the initial audit sample.
National non-domestic rates return	£37,331,827	No	NIL	No	£1,506	£1,272	There were no issues to follow up from the previous year.
Housing finance base data return	Not applicable	N/A	N/A	Not applicable	£7,078	NIL	DCLG no longer requires this claim to be audited because of HRA self-financing from March 2012.

Claim or return	Value (£)	Amended ?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing Revenue Account subsidy claim	£6,888,863	Yes	NIL – no impact on subsidy	No	£1,152	£882	There was an amendment to the housing stock figure so that it agreed to the figure in a previously audited return.
Pooling of capital receipts return	£800,327	Yes	increased amount payable to Pool by £86,554 to £886,881	No	£1,425	£1,607	A qualification letter was drafted but was not issued. The Council amended its return following discussions with the DCLG about capital allowances.
Disabled facilities	Not applicable			Not applicable	£514	NIL	DCLG no longer requires this claim to be audited.
Reporting to those charged with Governance	Not applicable			Not applicable	£1,376	£732	There were fewer claims and returns on which we had to report.
<b>Total</b>	<b>£82,475,418</b>		<b>£89,085 (gross)</b>		<b>£31,869</b>	<b>£31,576</b>	The certification fee for 2011/12 was estimated at £33,000 in the fee letter dated 8 April 2011.

## C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing benefit and council tax benefit	Ensure that all recommendation validation programme "bug" checks are run before preparing the claim	High	The Performance Manager will introduce a secondary check to ensure all 'bug' programs issued by Civica OPEN Revenues are run and there is evidence of this taking place on file.
Housing benefit and council tax benefit	Review council tax excess benefit and rent rebate overpayments that they are correctly classified and relate to the correct year in the subsidy claim	Medium	Quarterly checks of 'high risk' cells, such as cells relating to council tax benefit and rent rebate overpayments are already in place and form part of our key controls.
HRA subsidy	Ensure that the opening stock level is the same as the closing stock level in the form.	Medium	HRA subsidy ceased in 2011/12 – no further action required.
Pooling of housing capital receipts	Check that the housing sales for which the Council is claiming capital allowances meet the requirements of the regulations. The Council cannot exclude sales of land and buildings if the purchaser intends to occupy the property.	High	We are working with the services to ensure complete and accurate information and are looking at a process around determining classification. We will ensure appropriate documentation of evidence from legal and housing services is received and that any contentious issues are discussed with DCLG/Audit.

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