



## **Plymouth City Council**

Certification work report 2009-10

December 2010

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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 Plymouth City Council's (the Council) external auditors, Grant Thornton 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.

## Certification arrangements

- 1.3 The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2009-10 were:
  - for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions;
  - for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but were not required to undertake any testing of the eligibility of expenditure or data; and
  - for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.
- 1.4 In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work.

## Our certificate

- 1.5 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 Council; or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

1.6 Where a claim is qualified because the Council 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 Council 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 charged.

## 2 Results of our certification work

### Key messages

- 2.1 For the financial year 2009-10, we have certified nine claims and returns for the Council, which amounted to £207 million. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial and non-financial information.
- 2.2 The Council's performance in preparing claims and returns is summarised in the table below.

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

Performance measure	2009-10	2008-09	Direction of travel
Without qualification	7	3	↑
Amended only	1	3	↑
Qualified only	-	-	↔
Amended and qualified	1	3	↑
<b>Total</b>	<b>9</b>	<b>9</b>	

- 2.3 This demonstrates that overall the Council's performance in preparing claims and returns has significantly improved since 2008-09. Working papers provided are of a high standard and there are examples of good practice, such as the 'New Deal for Communities' claim where supporting data is subject to detailed internal review before the claim is submitted for certification. We commend the Council for the progress it has made in recent years in preparing claims and returns.
- 2.4 Details on 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.
- 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.
- 2.6 The Council's and our performance in meeting deadlines related to the certification of claims and returns is summarised in the following table.

**Exhibit Two: Performance against deadlines**

Deadline	2009-10	2008-09	Direction of travel
Submitted by deadline	4	9	↓
Certified by deadline	9	9	↔

- 2.7 Five claims were received after the required deadline although one of these, the Housing Revenue Account Subsidy claim, was due to a delay in the Department for Communities and Local Government providing correct subsidy information on the electronic LOGASnet system. Two of the remaining claims were only signed by the Council on the day of the deadline and were therefore not received by Grant Thornton by the required submission date. A recommendation has been made in relation to the timeliness of submission at Appendix B.

**Certification work fees**

- 2.8 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 for 2009-10**

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

- 2.9 Our fee for certification work at the Council in 2009-10 was £49,031 a further reduction compared to £54,165 for 2008-09. Our fee is below our estimate of £80,000 included in our audit fee letter presented to, and approved by, the Audit Committee on 26 March 2010. This is due to continued improvements in the Council's arrangements for the preparation of claims and returns over the last three years. We commend the Council for implementing our previous recommendations and for raising the profile of preparing claims and returns. Details of our fee by claim and return and how this compares to last year are included at Appendix A.

**Significant issues**

- 2.10 During our certification work, the only claim where we identified significant issues was the housing and council tax benefit scheme.

### **Housing and council tax benefit scheme**

- 2.11 For this scheme, we are required to test a random sample of 20 claims for each of the four benefits types. If we identify any errors in this initial sample, we are required to undertake further work.
- 2.12 Our initial testing identified one council tax benefit case where the income received by the claimant had been incorrectly recorded. As a result, we were required to test 40 additional cases and identified a further three errors. Three of these resulted in underpaid benefit totalling £70 and one resulted in an overpayment by the Council of £29.
- 2.13 Our initial testing also identified one non-HRA rent rebate case where no evidence had been received of the claimant's income, resulting in an overpayment of £764, and one rent allowance case where expenditure had been included under the incorrect tenancy type on the subsidy claim form. We tested an additional sample of 40 claims in each of these areas, as required by the Audit Commission, and did not identify any further errors.
- 2.14 Both the number of errors identified during our certification work on this claim and the value of the extrapolated errors have significantly reduced since 2008-09. However, in accordance with the certification requirements, we qualified the cell entries in the Council's claim form affected by these errors and reported the extrapolated the errors to the Department for Work and Pensions.
- 2.15 We are no longer required to review the Council's performance in processing new claims for benefit and changes in circumstances reported by claimants. However, we understand that the Council has experienced backlogs in processing these claims. we would emphasise that working under pressure to clear such backlogs can result in more frequent errors, such as those described above. Consequently, we have made a recommendation to review the arrangements in place at Appendix B.
- 2.16 The Department for Work and Pensions require that Audit Commission's auditors evidence that the rent stated on the benefit claim was the amount being paid by the claimant. Our initial sample of claims identified four cases where we were unable to evidence this. The Council has stated that it is not required to request this evidence. We understand that this is a national issue and has been raised with the Department for Work and Pensions by the Audit Commission. As a result, we have reported this to the Department but have not undertaken further testing.
- 2.17 The Council is supplied with a reconciliation pack by CAPITA, its benefits software supplier, to assist in the preparation of the subsidy claim. These reconciliations were not completed in 2008-09, an issue which was reported to the Department and set out in our 2008-09 certification work report. Whilst progress has been made in 2009-10, the pack has still not been fully completed. As a result, we repeat our previous recommendation at Appendix B.
- 2.18 We would like to emphasise that failure to strictly comply with the terms and conditions of the scheme may result in payments to the Council being delayed or withheld by the Department for Work and Pensions. The Department may also require further certification work to be carried out by ourselves, which would be at an additional cost to the Council. We will continue to work with the Council to address the issues that we have identified and ensure that our audit work is completed as efficiently as possible.

## **Acknowledgements**

- 2.19 We would like to take this opportunity to thank the Council's grant claim co-ordinator and officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**December 2010**



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

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09
Housing and council tax benefit scheme	99,619,776	Amended and qualified	<p>The claim was fairly stated and in accordance with terms and conditions except for errors set out in section 2 of this report:</p> <ul style="list-style-type: none"> <li>the input of benefit claimants' weekly income, the classification of rent allowance expenditure and the audit trail supporting rent paid by claimants; and</li> <li>the reconciliation pack provided by the Council's benefits software supplier has not been fully completed.</li> </ul> <p>When income parameters were transferred from the previous benefits system and to the current software, a small number were recorded in aggregate. We are satisfied that these have had no impact on the subsidy claimed in 2009-10. If they were recorded separately, this would allow them to be individually up-rated.</p> <p>We have made recommendations in relation to these issues at Appendix B.</p> <p>The increase in fee in line with increase in Audit Commission schedule of rates because extended testing continued to be required in 2009-10.</p>	27,004	25,693

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09
Pooling of housing capital receipts	807,247	Without qualification	The return was fairly stated and in accordance with terms and conditions.  Fee reduction because this claim was amended in 2008-09 whereas no errors were identified this year.	1,144	2,333
Sure start, early years and childcare and Aiming high for disabled children grant	8,501,801	Without qualification	The return was fairly stated and in accordance with terms and conditions. Our work has highlighted that the asset register listing grant-funded items was only updated when the claim was prepared and not on a periodic basis throughout the year. Recommendation made at Appendix B.	4,654	4,665
HRA subsidy	1,029,575	Amended	The return was fairly stated and in accordance with terms and conditions. The amendment for £207 related to an error in the calculation of the discount received for early repayment of debt in 2009-10.  Fee increase due to the added complexity of testing and calculations as a result of the LSVT and amendment of the claim.	3,785	3,095

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09
HRA subsidy base data return	Non-financial	Amended	<p>The return was fairly stated and in accordance with terms and conditions. Five cells had been incorrectly completed and required amendment, however as this return will not require completion following the closure of the Council's Housing Revenue Account, no recommendation is considered necessary.</p> <p>Fee has reduced due to there being fewer cells requiring certification following the Council's transfer of its housing stock to Plymouth Community Homes.</p>	1,205	3,583
Disabled facilities	588,000	Without qualification	<p>The claim was fairly stated and in accordance with terms and conditions.</p> <p>Fee reduction because no errors were found in 2008-09, therefore we undertook less sample testing for 2009-10.</p>	1,423	2,303
National non-domestic rates return	72,350,613	Without qualification	<p>The return was fairly stated and in accordance with terms and conditions.</p> <p>Fee reduction because no errors were found in 2008-09, therefore we undertook less sample testing for 2009-10.</p>	3,210	4,050
Teachers' pensions return	16,574,342	Without qualification	<p>The return was fairly stated and in accordance with terms and conditions.</p> <p>We have relied upon the controls in place for the preparation of this claim for the last three years, but are required to periodically review these controls to ensure they continue to be effective. This review was carried out in 2009-10.</p>	3,030	1,470

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09
New deal for communities	7,621,000	Without qualification	The claim was fairly stated and in accordance with terms and conditions.  Significant reduction in fee reflects the strong internal review arrangements in place enabling us to rely on the control environment and additional work in the previous year in relation to an amendment of over £70,000.	2,326	6,975
Cost of reporting to those charged with governance	-	-	We did not recover the cost of reporting in 2008-09. The Audit Commission guidance states that this should be charged at cost.	1,250	-
<b>Totals</b>	<b>207,092,354</b>		Overall fee reduction of £5,134 reflects that the Council continues to improve the preparation of claims are returns.	<b>49,031</b>	<b>54,165</b>

## B Action plan

Claim or return	Recommendation	Priority	Management response & implementation details
Overall arrangements	All claims should be received by Grant Thornton's Bristol office prior to the deadline specified by the relevant government department.	Medium	<p>The Council does have a central grants register which includes details of the deadlines for grant submission. The Corporate grants coordinator also agrees a schedule of grant audit work with the External Auditor and relevant link finance officer early in the financial year so we are clear which claims will be subject to audit and are able to plan resources appropriately. To strengthen procedures, in future the grants coordinator will endeavour to send out a reminder of deadline approaching to the relevant link finance staff and advise Grant Thornton of any impending delays if these are unavoidable.</p> <p>Senior Accountant Corporate Accountancy (Revenue) - Grants Coordinator                      March 2011</p>
Housing and council tax benefit scheme	The required reconciliation procedures should be followed and any reconciling items are investigated and resolved.	High	<p>This has been resolved, a process of regular monitoring in this area has now been set up which will enable discrepancies to be identified and corrected as they occur.</p> <p>Head of Value for Money &amp; Efficiencies / Revenues and Benefits Service Manager                      1 December 2010</p>

Claim or return	Recommendation	Priority	Management response & implementation details
Housing and council tax benefit scheme	The way income parameters are recorded on the benefits system should be reviewed to allow them to be up-rated individually, as required.	Medium	Capita provide a service where the database will be interrogated and, income types identified and where necessary split, the cost is currently under investigation.  Head of Value for Money and Efficiencies / Revenues and Benefits Service Manager  1 April 2011
Housing and council tax benefit scheme	Arrangements to manage the backlog of new claims and changes in circumstances should be reviewed to ensure claims are processed on a timely basis and to minimise the risk of error, particularly if backlog claims are processed quickly.	Medium	This has been addressed and will be further addressed through a proposed restructure.  Head of Value for Money and Efficiencies  1 April 2011
Sure start, early years and childcare and Aiming high for disabled children grant	The register of grant funded assets should be updated on a periodic basis throughout the year rather than as part of the claim preparation process at the year end.	Low	Agreed. These assets are added to the main corporate asset register on an annual basis but in order to comply with grant conditions a separate asset register should be held for such grant funding streams and updated on a timely basis as grant is utilised to fund the construction or acquisition of assets.  Group Accountant Children's Services  March 2011

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