

# Plymouth City Council

## Certification work report 2010/11

Draft for discussion

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December 2011

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# 1 Introduction and approach

## Introduction

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.

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

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2010/11 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 are 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.

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 where possible.

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

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..

## 2 Results of our certification work

### Key messages

For the financial year 2010/11, we have certified 6 claims (9 in 2009/10) and returns for the Council, which amounted to £216,421,754. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.

The Council's performance in preparing claims and returns is summarised in the table below.

**Table One: Performance against key certification targets**

Performance measure	2010/11	2009/10	Direction of travel
Without amendment or qualification	3 (50%)	7 (78%)	↓
Amended	2 (33%)	1 (11%)	↓
Qualified	1 (17%)	1 (11%)	↔
<b>Total</b>	<b>6</b>	<b>9</b>	

This indicates that the Council's overall performance in preparing claims and returns has slightly deteriorated since 2009/10, with one additional claim requiring amendment. Working papers provided were of a high standard and there were areas of good practice, such as "Sure Start, Early Years and Childcare Grant" where the quality of supporting documentation was of an exceptional standard. There were three grants which did not require external audit certification as they fell below the de-minimum threshold (£125,000) in 2010/11 as a result of the housing stock transfer, these grants were:

- Pooling of Housing Capital Receipts;
- HRA Subsidy, and
- Housing Finance Base Data Return.

The review of the Housing and Council Tax Benefits Schemes proved particularly time consuming this year and this was due again to the transfer of housing stock. The result of investigations that were still ongoing into possibly fraudulent claims resulted in complicated calculations which spanned two to five years and caused negative amounts to be included within the claim. We would emphasise that this is not a negative reflection on the Council, but a product of the fact that the more complicated cases, which take longer to review, remain following the transfer.

Whilst the value of the net adjustment to the Housing and Council Tax Benefits grant was low, this does not reflect the number of errors that were identified, many of which related to underpayments. The errors were due to either mistakes made during benefit assessment or non-application of additional information.

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.

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.

The Council's and our performance in meeting deadlines related to the certification of claims and returns is summarised in Table two

**Table Two: Performance against deadlines**

Deadline	2010/11	2009/10	Direction of travel
Submitted by deadline	5 (83%)	4 (44%)	↑
Certified by deadline	6 (100%)	9 (100%)	↔

The Council has significantly improved its arrangements to submit claims and returns to us within the required deadlines. This enabled us to meet all the certification deadlines again in 2010/11.

### Certification work 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. To reflect the challenging financial environment facing Councils, these rates have been frozen over the last two years. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

**Table Three: Hourly rates for certifying claims and returns for 2010/11**

Role	2010/11	2009/10
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

Our fee for certification work at the Council in 2010/11 was £51,966, compared to £49,031 for 2009/10. Our fee is below with our estimate of £55,000 included in our audit fee letter presented to, and approved by, the Audit Committee in March 2010. Details of our fee by claim and return and how this compares to last year are included at appendix A.

## Significant issues

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

For this scheme, we are required to test a random sample of 20 claims for each of the four benefit types. If we identify any errors in this initial sample, we are required to undertake additional work.

Our initial testing identified the following:

- Council Tax – two cases were identified where the benefit entitlement had been incorrectly calculated causing an underpayment, in addition one case was identified where the expenditure had been misclassified. As a result 40 additional cases were tested and identified a further 10 cases where underpayment or misclassification had occurred.
- Rent Allowances – two cases were identified where the benefit had been underpaid due to incorrect use of eligible LHA rent and incorrect calculation of benefit entitlement. As a result 40 additional cases were tested and identified an additional 14 cases where errors were identified. The errors showed both underpayments and overpayments. The overpayments in the additional testing was for the total value of £490. The certificate instruction require that this is extrapolated and the grant claim be qualified.

- HRA – seven cases were identified with errors in relation to the HRA. The Council transferred its housing stock in 2009 and the entries in the grant claim for this benefit type is residual amounts due to on-going investigative work. As a result 40 additional cases were tested and identified a further 12 cases where errors had occurred in this benefit type. The certificate instruction require that this is extrapolated and the grant claim be qualified. Due to the nature of the cases and the net figure being certified, which included both negative and positive entries, the extrapolated figure would not have been a fair reflection of the position. This was set out in the qualification letter that was issued and the DWP will need to assess if additional work will be required.

The number of errors that have been identified during the certification work on this claim has significantly increased since 2009-10. This is likely to reflect the fact that more complex cases are selected for review as a result of the transfer of the housing stock and does not necessarily indicate a deterioration in the performance of the team compiling this claim.

### Acknowledgements

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**  
**December 2011**

# A Details of claims and returns certified for 2010/11

Claim or return	Value (£)	Certificate	Summary	Fee 2010/11 (£)	Fee 2009/10 (£)
Housing and council tax benefit scheme	108,636,279	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 calculation of benefit in relation to rent allowance, council tax and expenditure classification in relation to all benefit types</li> </ul> <p>We have made recommendations in relation to these issues at Appendix B.</p>	32,883	27,004
Sure start, early years and childcare and Aiming high for disabled children grant	11,173,879	Without Qualification	The claim was fairly stated and in accordance with terms and conditions.	3,296	4,654
Disabled facilities	782,335	Without Qualification	The claim was fairly stated and in accordance with terms and conditions.	1,464	1,423
National non-domestic rates return	75,970,751	Without Qualification	The claim was fairly stated and in accordance with terms and conditions.	4,535	3,210
Teachers' pensions return	16,216,454	Amended	The claim was fairly stated and in accordance with terms and conditions. A transposition error was identified in the completion of the claim from the source documentation and a recommendation has been made in Appendix B.	2,410	3,030



<b>Claim or return</b>	<b>Value (£)</b>	<b>Certificate</b>	<b>Summary</b>	<b>Fee 2010/11(£)</b>	<b>Fee 2009/10 (£)</b>
New deal for communities	3,642,056	Amended	<p>The claim was fairly stated and in accordance with terms and conditions. Ineligible expenditure was identified and replaced with eligible expenditure in the Management and Administration section of the grant. The claim was amended to reflect this prior to certification.</p> <p>This is the final year of this grant and Management and Administration costs included redundancies for staff involved in the programme. All redundancy costs were checked and found to be eligible.</p>	4,441	2,326
Housing and council tax benefit scheme (2009-10 claim)		Response to DWP	Additional work was required to resolve the issues raised in the 2009-10 qualification letter and respond to the DWP	1,959	N/A
2009-10 Claims			Claims not required to be certified in 2010-11	-	6,134
Cost of reporting to those charged with governance			The cost of reporting to those charged with governance on the results of certification work should be charged as certification work under section 28 of the Audit Commission Act 1998. A record of the time charged and the cost of this work should be kept so it can be reported to the Commission.	978	1,250
<b>Total</b>	<b>216,421,754</b>			<b>51,966</b>	<b>49,031</b>

## B Action Plan

Claim or return	Recommendation	Priority	Management response & implementation details
Housing Benefit and Council Tax benefit scheme	Quality Assurance arrangements should be implemented to review benefit assessments to minimise the risk of errors resulting in under/overpayments of benefit and subsequent qualification of the grant claim.	High	<p>&lt;A review of the existing QA process is currently underway and changes are being introduced to better reflect the audit process. The recent introduction of a subsidy officer will enable a more focussed approach to data quality and allow for more robust management and reporting of data quality.&gt;</p> <p>&lt;Martine Collins&gt;</p> <p>&lt;January 2012&gt;</p>
Teachers' Pension return	Robust arrangements should be implemented to check that all information has been correctly recorded on the grant claim form to reduce the risk of amendment.	Medium.	<p>This was a "one-off" error where two figures were entered into the reverse columns. To mitigate, the responsible officer will ensure the completed claim is cross checked by a second person within the HR department. Finance will scrutinise more closely.</p> <p>Responsible Officer Tony Sullivan – Pensions Officer HR / Sue Buddell Group Accountant Corporate Finance</p> <p>Next return</p>



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