

Certification of claims and returns - annual report

Durham County Council

Audit 2010/11



Contents

- Introduction.....3
- Summary of my 2010/11 certification work.....4
- Results of 2010/11 certification work.....5
- Summary of progress on previous recommendations15
- Summary of recommendations17
- Summary of certification fees18

Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies. They are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000, I planned and performed my work in accordance with the certification instruction. I assess the control environment for the preparation of the claim or return to decide whether to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

I have summarised the results of my certification work on the claims and returns for the year ended 31 March 2011 below. My overall conclusion is that arrangements in place for preparation and certification of grants are reasonable. Housing and council tax benefit claims are complex in nature and the work required each year depends on the claims selected for testing (the Department decides testing requirements).

Table 1: **Summary of certification work**

Number of claims and returns certified	2010/11	2009/10
Total value of claims and returns certified	£383,774,702	£364,902,117
Total number of claims and returns certified	11	14
Number of claims and returns amended because of errors	6	7
Number of claims and returns where qualification letter issued	7	8
Total cost of certification work	£103,541	£178,468

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

- 1** In 2010/11, I certified 11 grant claims for Durham County Council. Of these I carried out:
 - a limited review, relying on the control environment, of two claims; and
 - a full review of nine claims.
- 2** I amended five claims requiring full certification and one claim subject to limited review for errors identified. In addition, I issued a qualification letter to the grant-paying bodies for six claims requiring full certification and one claim subject to partial certification.
- 3** I include brief details of all qualification letters below. The most significant qualification letter relates to my work on the housing and council tax benefit claim.

Table 2: **Claims and returns above £500,000 and full review**

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	£220,617,910	No. Our approach to this claim does not allow reliance on the control environment.	£3,022 plus extrapolated errors of £257,681.	Yes. The housing and council tax benefit claim was amended and a qualification letter was issued. I test 20 cases for each of the four benefit types (non-HRA, rent rebates, rent allowances and council tax benefit), with additional testing of local scheme cases. In addition, council officers carried out testing of 40 cases in areas where errors were found in 2009/10. I found fewer discrepancies this year, most were not significant values themselves but have been extrapolated across the whole population. The total possible impact of each error is calculated by applying the error rate to the total value of the affected entry in the claim using subpopulations where possible. This gave a total extrapolated subsidy overpayment of £257,681. Table 3 shows more details.
Pooling of housing capital receipts	£1,957,609	No. Satisfactory arrangements but changes this year in administration cost calculations.	0	No The Council amended the claim but there was no impact on the value of the return.

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
HRA subsidy	-£2,757,000	No. Because of the technical nature of this claim and complex transactions and calculations.	0	No
Housing finance base data return	Not applicable.	No. Changes to the subsidy regime for 2012/13 meant that more testing was necessary and we could not place reliance on the control environment.	0	Yes. Authorities must provide an audit trail to support the analysis of usable floor areas of pre -1945 and 1945 to 1964 terrace houses between 'large' and 'small' categories. The stock records for the predecessor authority Wear Valley District Council do not contain floor area data but merely identify properties as large or small. Authorities should include only dwellings in the HRA. During 2010/11, 18 leased properties were removed from the Council's rent account, and therefore the base data return, as they are no longer part of the Council's managed housing stock. A former district council got approval to do so some years ago but the Council cannot find any evidence for this. The Council is no longer receiving rental income from these properties.

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
National non-domestic rates return	£91,843,134	<p>No.</p> <p>A complex claim, with a large volume of transactions so a high possibility of human error.</p>	0	<p>Yes.</p> <p>The Council amended the claim but there was no impact on the value of the claim.</p> <p>In a test of 20 items included in line 3 (i) I found an error of £11,476.34 in transitional relief. The Council has amended this case in 2011/12 in accordance with the VOA Schedule and issued a demand showing the correct transitional relief.</p> <p>In a test of a sample of 20 items included in line 5(i) I found the Council could not evidence for one ratepayer that they had made an application for SBRR. There were two relief forms linked to this account but because of technical problems in the transfer of information to the new 'merged' system, the documents were not able to be read and no more evidence provided.</p> <p>In a test of a sample of 20 items included in line 6(i) I identified three schools receiving charitable relief but the liable party was shown as Durham County Council. The rules state that for schools where the local authority is itself in rateable occupation the schools do not qualify for relief. Durham's view is that as two of the schools are voluntary-aided church state schools and the third is a foundation school they qualify for mandatory relief. One school</p>

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
				<p>is part of a local diocese that is a Registered Charity, so it was correct to receive charitable relief. The rateable occupation was noted as Durham County Council.</p> <p>Officers have confirmed that for 2011/12 they will:</p> <ul style="list-style-type: none"> ■ seek confirmation of charitable status from the remaining two schools; ■ update the system to show all three as the rateable body rather than the Council; and ■ review all state aided schools to ensure the system correctly reflects the ratepayer status for any mandatory relief being given. <p>For 11 of the sample of 20 items, officers could not provide evidence the property was empty for periods for which empty property rate relief had been given. This was because the Council could not find the files. In addition, the Council is not undertaking void inspections although is considering starting these again in future.</p>

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Teachers' pensions return	£33,010,936	No. A high value claim with a large volume of transactions. QL issued in previous year.	0	Yes. From a sample of 5 part-time employees who started employment after the 1 January 2007, the Council could not find one file. For five employees sampled, the Council could not find opt in or opt out forms (as applicable). Eleven full-time youth workers were paying contributions on both a full-time and a part-time post. Contributions should not be paid for ' <i>extra duties carried out under a separate contract of employment</i> '. The error was corrected in 2011/12. There were some inconsistencies between the Council's records and Teachers pension records for additional contributions.
Sure start, early years and childcare grant and aiming high for disabled children grant	£24,591,395	No. Expenditure comes from several sources. Some of this is ring-fenced so there is a risk of manipulation.	0	Yes. The Council is required to have satisfactory records of assets funded by Sure Start grant. However, it had not yet added all of its 2010/11 capital spending on Sure Start assets to its asset register.

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Disabled facilities	£1,847,000	No. Prime documents do not agree either to the financial ledger or the claim. There was no formal reconciliation.	0	No. The Council amended the claim but there was no impact on the value of the return.
Single programme	£11,564,347	No. There is a history of missing evidence for spending and insufficient evidence to provide assurance that all contracts were awarded in accordance with standing orders.	£133,000	Yes. I selected a sample of three projects for testing. For one project there was not enough evidence to provide assurance that: <ul style="list-style-type: none"> ■ contracts were awarded in accordance with standing orders; ■ all spending was eligible; and ■ that VAT had been correctly accounted for and excluded from the return. One North East asked for more testing on this project following receipt of the qualification letter. The results of this extra testing mirror the original testing and have been reported to ONE North East.

Note: The assessment of the control environment is specific to the claim being certified. This assessment takes account of the complexity of the scheme, the value of the claim and the quality of the working papers provided with the claim. A control environment assessed as inadequate for a grant claim does not indicate that there are failings in the financial systems used to prepare the claim.

Table 3: Issues arising from the housing and council tax benefit claim audit

Error type	Sample size	Number of errors	Error value £	Error %	Total possible impact £
Rent rebates: tenants HRA properties - incorrect start date applied to claim	41	1	119.66	0.3	-1,510
Rent rebates: tenants HRA properties - pension credit uprating applied from incorrect date and for incorrect amount	40	4	674	0.7	-4,546
Rent allowances: rent officer's referral not actioned and incorrect subsidy cell used	38	1	23	0.01	-303
Rent rebates: HRA – error in recording rent increase	39	1	88.48	0.07	-779
Rent rebates HRA: error in recording income and retention of documentation	39	9	659	0.1	-4,626
Rent rebates HRA: error in recording mineworkers pensions	40	1	81.51	0.1	-358
Rent allowances HRA: error in recording dates IS and JSA	38	1	80.55	0.08	-639
Rent allowances HRA: relevant information not on file	38	3	295.24	0.3	-12,828
Rent allowances HRA: incorrect calculation and evidencing of claimants income	38	11	1,345.69	0.8	-58,045
Rent allowances HRA: incorrect actioning of change in circumstances	38	2	471.03	0.2	-42,777
Rent allowances HRA: incorrect recording tax credits	38	4	116.39	0.09	-3,620
Rent allowances HRA: incorrect LHA rate paid	39	1	11.51	0.007	-93

Error type	Sample size	Number of errors	Error value £	Error %	Total possible impact £
Rent allowances HRA: not enough proof on self employed income	38	4	10,294.99	4.6	-24,927
Council tax benefit: incorrect actioning of change in circumstances	37	1	14.61	0.04	-1,071
Council tax benefit: incorrect up rating pension credits	39	3	20.57	0.08	-419
Council tax benefit: incorrect classification of overpayments	42	6	298.99	0.8	-7,844
Council tax benefit: incorrect recording of date of stopping JSA/IS	38	1	115.99	0.3	-3,095
Council tax benefit: incorrect recording of council tax liability and incorrect end date for liability	42	3	55.01	0.1	-25,251
Council tax benefit: incorrect recording working tax credits	40	2	11.64	0.04	-108
Council tax benefit: incorrect recording and evidencing wages	34	5	281.36	0.9	-28,107
Council tax benefit: incorrect start date applied to new claim	36	1	182.6	0.7	-13,284
Council tax benefit: error in non-dependents charge applied and proof of income not kept	36	1	119.94	0.4	-3,633
Council tax benefit: error in calculation of income and expenditure for self-employed claimant	36	5	3600.68	9.9	-19,803
Total extrapolated error subsidy overpayment					-257,681

Table 4: **Claims between £125,000 and £500,000 or Limited review**

Claim or return	Value of claim or return presented for certification	Was reliance placed on the control environment	Value of any amendments made	Qualification letter
School centred initial teacher training (LearnEd)	£285,040	Yes	0	Yes. The Council was unable to provide student registration records to support the number of registrations on the claim form.
School centred initial teacher training (Durham Secondary applied)	£680,873	Yes	0	No.

Summary of progress on previous recommendations

This section considers the progress made in completing recommendations I have previously made arising from certification work.

4 I made two recommendations in 2009/10. No progress has been made on either of these recommendations and they will be carried forward as 2010/11 recommendations.

Table 5: Summary of progress on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
The Council should ensure there are more rigorous checks of claims before submission to the Central Grants Coordinator	None noted	None noted but would have anticipated implementation for submission of 2010/11 claims and returns.	Doug Wilson 2009/10 Annette Geragusian	Not implemented	Recommendation to be carried forward.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>All claim and return compilers should ensure that claims are compiled in line with the grants protocol that was updated in 2009. In particular:</p> <ul style="list-style-type: none"> ■ cross-referencing claims to the relevant Certification Instructions; and ■ providing evidence that managers have checked the claim before submission to the Central Grants Coordinator. 	None noted	None noted but would have anticipated implementation for submission of 2010/11 claims and returns.	Doug Wilson 2009/10 Annette Geragusian	Not implemented	Recommendation to be carried forward.

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 6: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
The Council should ensure there are more rigorous checks of claims before submission to the Central Grants Coordinator	High			Annette Geragusian
All claim and return compilers should ensure that claims are compiled in line with the grants protocol that was updated in 2009. In particular: <ul style="list-style-type: none">■ cross-referencing claims to the relevant Certification Instructions; and■ providing evidence that managers have checked the claim before submission to the Central Grants Coordinator	Medium			Annette Geragusian
A note should be included on all files of the discussion which takes place at the meeting at which the grant is signed by the authorised signatory.	High			Annette Geragusian

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 7: Summary of certification fees including grant planning

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£60,712	£126,455	Council staff involved in this year's CAKE testing were more experienced. Therefore, less time was needed to provide training by audit staff and less time was spent on certification work. In addition, Council staff were required to input less CAKE documentation in workbooks this year so certification work was quicker. This year's testing identified fewer fails so less time was spent on follow up work. Last years fee includes time spent responding to DWP on issues identified in previous years.
Pooling of housing capital receipts	£3,368	£2,376	The fee increased due to an increase in the properties sold in 2010/11, leading to more work. In addition, more testing of the new administration costs calculation following unification across the three districts.
HRA subsidy	£2,095	£2,778	Last year the Council prepared, and I certified, two returns. This year there was a combined return, saving some work.

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing finance base data return.	£8,030	£14,098	This is the second year that a combined return was prepared as a unitary authority and although there was no change or improvement to systems, officers were able to produce reports more quickly and accurately in support of certification work. Additional testing was however required this year in preparation for the new housing subsidy regime in 2012/13.
National non-domestic rates return.	£14,232	£8,951	Testing involved increased sample sizes this year in accordance with guidance. More cells were tested in detail in 2010/11. In addition, the seven different district systems, now merged, caused a few problems in producing reports on a timely basis to support the figures in the claim. This should not be a problem in future years.
Teachers' pensions return.	£2,796	£5,670	The Council amended last year's claim as a result of reports being produced with incorrect parameters. This led to significant extra work. The problem did not recur this year.
Sure start, early years and childcare grant and aiming high for disabled children grant	£2,750	£5,145	The system of internal control has improved between the 2 years. This was evident by the reduced time taken to certify the grant and fewer issues highlighted in the grant qualification letter issued this year.
School centred initial teacher training – Durham Secondary applied and Learn Ed (2 returns)	£3,798	£4,190	Not applicable.
Disabled facilities	£1,712	£2,171	Updated guidance on sample sizes resulted in less work in 2010/11.
Single programme	£4,048	£5,566	Two Single Programme claims were certified in 2009/10. Only one claim was certified in 2010/11. The claim was submitted by the deadline but additional testing was requested by ONE North East.
Local transport plan: major projects	£0	£1,068	There was no claim to certify in 2010/11.
Total	£103,541	£178,468	

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



www.audit-commission.gov.uk

February 2012