

# Certification of claims and returns

Annual report 2011/12

## Durham County Council



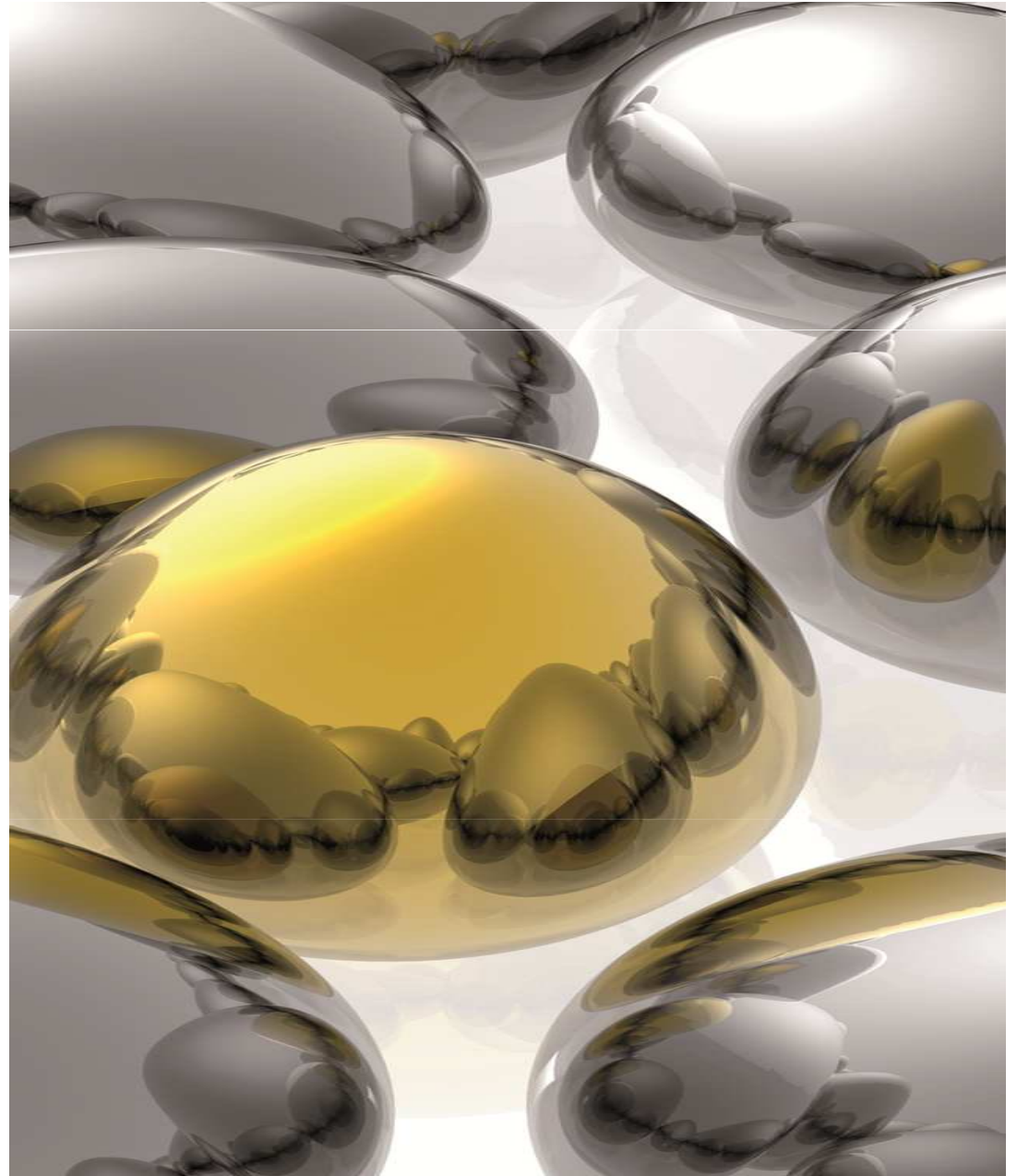
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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

# 01

## Background



# Background

## The scope of our work

We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. We charge a fee to cover the full cost of meeting this requirement.

The Council is responsible for compiling grant claims and returns that follow the requirements and timescale set by the grant paying departments. The key features of the current arrangements are:

- For claims and returns below £100,000 the Commission does not certify arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000, auditors assess the control environment for preparing the claim or return to decide if we can place reliance on it. Where we place reliance on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where we cannot place reliance on the control environment, auditors undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required. This means we can reduce the audit fees for certification work if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and we test accordingly. The approach impacts on the grants work we carry out, placing more emphasis on the high value claims.

# Background

Durham County Council (the Council) received some £984 million in funding from various grant-paying government departments in 2011/12 (£1 billion in 2010/11)\*. These departments attach conditions to some of these grants and where the Council cannot evidence conditions have been met, the funding can be at risk.

It is therefore important the Council can demonstrate that it:

- has put in place adequate arrangements to prepare and authorise each claim and return (we call this the control environment); and
- can evidence that it has met the conditions attached to each claim.

This report summarises the findings from our certification work for the 2011/12 financial year.

\* source: Note 37 grant income of the 2011/12 financial statements, excluding council tax income

# 02

## Findings



# Findings

## Your control environment

We assessed your control environment for the five specified claims and returns:

- Housing and Council Tax Benefit subsidy;
- Pooling of housing capital receipts return;
- HRA subsidy
- NNDR; and
- Teachers Pensions.

We did not identify any significant weaknesses in your control environment.

## Amendments and Qualifications

Where our certification work identifies errors on a claim or return the Council will amend the claim or return to correct the error. Where we concluded that the claim or return is not fairly stated or in accordance with the associated terms and conditions we will issue a qualification letter to the grant-paying body to draw its attention to our findings.

We certified five claims and returns in 2011/12. One was subject to a qualification letter but no amendment (housing and council tax benefits (HB/CTB)), another was subject to a qualification letter and amendment (national non domestic rates (NNDR3)) and a third was subject to amendment only (HRA subsidy).

Both the HB/CTB and NNDR3 returns were more complicated in 2011/12 due to the complexities of having eight systems for 9 months and the single combined system for 3 months. During 2012/13, the Council has considerably strengthened reconciliation and control processes. The NNDR3 is now run and reconciled on a monthly basis and officers have agreed a range of whole claims reviews (eg self-employed claims) which it is hoped will reduce issues raised during CAKE testing on the HB/CTB claim over the last couple of years. A full summary of the claims and returns is included at Appendix A.

A summary of recommendations are included at Appendix B.







# Certification Fees

For 2011/12 the total fee for certification of claims and returns was £61,000 (£103,500 2010/11). This represents 0.02% of the value certified (0.03% 2010/11). This is a significant reduction on fees charged in previous years as a result of:

- a reduction in the number of claims above the £500,000 threshold;
- a reduction in the number of claims for which the Audit Commission has made certification arrangements; and
- an improvement in the Council's arrangements for preparing claims and returns ( most notably on the housing and council tax benefit claim where additional testing by client staff prior to audit resulted in fewer case fails).

# 04

## Appendix

A – Summary of certified claims and returns



# Appendix A – Summary of certified claims and returns

## Claims and returns above £500,000

Claim or Return	Value (£)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
Housing and Council Tax Benefit Scheme	228,817,077	Our approach to this claim does not allow reliance on the control environment. The approach agreed with the DWP is to test an initial sample of each benefit type and evaluate results from that work.	nil	Yes  Tested 20 cases for each of the 4 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 2010/11. Found fewer discrepancies this year, most were not significant values themselves but have been extrapolated across the whole population and included in the QL. 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 - total extrapolated subsidy overpayment of £548,290.

# Appendix A – Summary of certified claims and returns (continued)

## Claims and returns above £500,000

Claim or Return	Value (£)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
National Non-Domestic Rates return	107,415,010	No – A complex claim, with a large volume of transactions so a high possibility of human error.	1,498,121 Data migration issue. Merger two Northgate sites into the new Civica system gave rise to difference between NNDR return and accounts.	Yes The QL referred to errors in system reports used to complete the return and to a few errors noted in the sample tested on rateable values, small business rate relief given, incomplete evidence to support claim for small business rate relief applications and also for empty properties.
Teachers' Pension return	29,541,660	No – A high value claim with a large volume of transactions. QL issued in previous year.	Nil	No
Pooling of housing capital receipts	2,084,759	No - Satisfactory arrangements but figures for the claim come from a variety of sources.	Nil	No
HRA subsidy	-4,199,486	No - Because of the technical nature of this claim and complex transactions and calculations.	-451,168	No
Total	363,659,020			

# Appendix B – Summary of recommendations

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
<p>More rigorous checks of claims before submission to the Grants coordinator</p> <p>All claim and return compilers should ensure that claims are compiled in line with the grants protocol. Claims should be cross-referenced to the relevant Certification Instructions and evidence provided that managers have checked the claim before submission to the Grants Coordinator.</p> <p>A note should be included on file for the audited claims and returns of the discussion which takes place at the meeting at which the grant is signed by the authorised signatory.</p>	H	<p>More rigorous checks of claims before submission to the Grants Coordinator.</p> <p>All claim and return compilers to ensure that claims are compiled in line with the grants protocol.</p> <p>A note to be included on file for the audited claims and returns of the discussion which takes place at the meeting at which the grant is signed by the authorised signatory</p>	2012-13	Grants coordinator – service finance