

# Certification of claims and returns - annual report

London Borough of Brent

**Audit 2009/10**

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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.**

**This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** Brent Council receives funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must demonstrate compliance with these conditions to obtain and retain funding. If the Council cannot evidence this, funding may be at risk. It is therefore important the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

**2** In 2009/10, my audit team certified 10 claims with a total value of £426 million. Of these, we carried out a limited review of 2 claims and a full review of 8 claims. (Paragraph 19 explains the difference.)

## Significant findings

**3** The Council and audit team have continued to develop the grants preparation and certification. The approach was set out in the 2008/09 grants protocol, with the aim of continuing to improve the accuracy and timeliness of grant returns.

**4** The results from certification of 2009/10 grant claims are summarised in Table 1 below. Performance has once again improved when compared to the prior year. Further details are set out in Appendix 1.

Table 1: **Summary of findings**

	2009/10 (10 claims)		2008/09 (11 claims)	
	Yes	No	Yes	No
Claims submitted by deadline	10	0	9	2
Claims amended	6	4	10	1
Claims qualified	2	8	5	6

**5** Our certification of grant claims in 2008/09 demonstrated a significant improvement from 2007/08. However, the following weaknesses were noted from our work in 2008/09:

- two claims were not submitted on time;
- some claims were presented with little supporting documentation;
- the authority had not identified new claims for certification; and
- the certification adjustments to claims were largely attributable to minor presentational or numerical errors.

**6** This year the Council:

- submitted 100% of claims by the deadline (82% in 2008/09);
- the number of claims requiring amendment reduced to 60% (from 91% in 2008/09); and
- the number of claims requiring qualification reduced to 20% (from 45% in 2008/09).

**7** There are still some areas for improvement. Often, minor errors have lead to amendments which could be avoided. It is important grants work is subject to supervision and review by the Council, capable of identifying presentational and basic numerical errors, before submission to the audit team.

**8** Working papers across most grants have reached satisfactory standards. And for some claims, the working papers are of a good standard. However, we are still experiencing problems with the working papers to support in particular the HRA Subsidy Base Data Return (HOU02). There has been a history of inadequate evidence to support this claim, resulting in qualifications for the last 3 years.

**9** The Council has built a strong foundation to maintain continuous improvement in grant claim submissions. Since 2008/09, the quality of arrangements has led to significant progress for ensuring claims are completed correctly and issues are dealt with in a timely manner. The Council should strive to continue this good work.

**10** Detailed findings on specific claims are detailed under the 'Findings' section of this report. This gives a review of all claims based on a

department review, including the reasons for amendments and qualifications where applicable.

**11** Appendix 2 includes an action plan summarising our recommendations.

## **Certification fees**

**12** The current estimated grant fee for 2009/10 stands at £78,000. This is lower than the 2008/09 fee of £85,956.

**13** This has resulted from continued improvement in 2009/10 by the Council and efficiencies within the certification process for 2009/10. In particular:

- One claim, was below £500,000 threshold, resulting in limited testing performed;
- One claim, where sufficient reliance could be placed in control environment, resulting in limited testing performed;
- LSC funding of further education in LA institutions (EDU23) no longer required auditor certification in 2009/10;
- Change in testing approach to Housing and Council Tax Benefits (BEN01), leading to more efficient sampling and testing approach in the current year.

## **Actions**

**14** Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

# Background

**15** The Council claims millions for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring the Council can evidence that it has met the conditions attached to each claim.

**16** I am 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 Brent Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**17** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**18** The key features of the current arrangements are as follows.

- For claims and returns below £100,000 the Commission does not require certification arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree 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 the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means the certification fees may be reduced 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 testing is applied accordingly. The approach impacts on the amount of certification work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**19** As stated in paragraph 17, for claims and returns over £500,000 we assess whether reliance can be placed in the control environment for preparing claims. Our control environment review assesses:

- arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions;
- control arrangements, including internal financial control and internal audit;
- quality of authority's supporting working papers;
- expertise and relevant knowledge of preparers, including the adequacy of supervision and review; and
- cumulative knowledge of the problems associated with compilation of a claim or return including previous points arising, any known concerns expressed by the grant-paying body, or any actions/decisions by the grant-paying body on previous qualification letters.

**20** Where the funding received is significant, for example Housing Benefits, National Non Domestic Rates, Teacher's Pensions, the size and complexity of the claims is a key consideration in determining the level of testing required.

**21** In 2009/10 we were able to rely on the control environment for 1 claim, Disabled Facilities Grant (HOU21). For this claim we had sufficient assurance to undertake only limited testing. The strong control environment was evidenced by:

- low value claim, small number of transactions and non-complex;
- good performance in previous years (no history of amendment or qualification);
- claim prepared by the same officer for several years, indicating experience and knowledge of claim terms and conditions;
- no significant or unexpected variances identified in year-on-year or predictive analytical review;
- Substantial assurance given by Internal Audit Internal Financial Controls audit of service area.

**22** Limited testing was performed on Single Programme (RG31) (Youth Offer Scheme) as the total claim value over the project's 2-year project life was below the £500,000 threshold level.

**23** Where the size and complexity of a claim meets set limits our ability to undertake limited testing (Part A only), the control environment will be used to determine the level of testing (sample sizes) undertaken. A strong control environment can lead to reduced substantive testing.



## Recommendation

- R1** The Certification Instructions provided to the Council include the Control Environment and Testing Assessment used to assess the claim control environment. The Council should review this document and consider how the claim is prepared, and how the control environment may be improved. Improvements can lead to:
- Limited testing (Part A only); or
  - Reduced substantive testing.
- 

## Specific claims

### Housing Benefit and Council Tax Subsidy (BEN01)

**24** Our work on the Housing Benefit and Council Tax Subsidy claim for 2009/10 was completed before the DWP deadline of 30 November. The continued effective management of the claim and the positive relationship between the Authority and the audit team has aided the delivery of this work.

**25** Our initial testing of 80 cases identified three errors across four cells on the claim. In accordance with the testing approach, agreed with the DWP, this led to additional testing on 120 cases, with one further error identified. As a result of the errors found, a qualification letter was agreed with the Authority.

**26** The qualification letter extrapolated the errors found in two of the cells tested. The other errors found were in two of the headline cells relating to underpayment of benefit. This did not affect subsidy and the DWP does not require these type of errors to be extrapolated.

### Housing grant claims

**27** The Housing department submitted 3 claims for certification. There were improvements in the arrangements for preparation of 2 the Housing related claims, with no amendment or qualification required on the following claims:

- HRA Subsidy (HOU01)
- Disabled Facilities Grant (HOU21)

**28** However, certification of the third Housing claim, HRA Subsidy Base Data Return (HOU02) resulted in amendment in 3 fields within the claim. These were the result of the use of projected figures instead of actual rents received and the inclusion of disallowed terminations in the claim.

**29** A qualification letter was issued for the same reason as in the previous 2 years, as the Authority was unable to support the classification of dwelling archetypes.

**30** Since our previous qualification, the Council commissioned a survey to evidence the accuracy of dwelling classifications. The survey covered 600 dwellings, covering six different dwelling types. The results of this survey (completed in September 2009) highlighted significant errors in the classification of dwellings. The survey reported 156 errors arising from misclassification of dwelling type. This is an error rate of 26%.

**31** Based on these findings, we were unable to agree that dwelling archetypes had been counted correctly in accordance with the HRAS determination guidance. The guidance states the Council should be able to provide a comprehensive survey, of dwelling types and ages, to support the entries in the claim.

**32** The Council has subsequently decided to carry out further work to resolve this issue, and are including a check of the property archetypes in their full stock condition survey. The results were due to be reported in December 2010, with a revised due date of March 2011. The CLG has written to the Council to gain assurance that the matter has been resolved once the results of the full stock survey have been completed.

## Recommendation

**R2** Consider findings of full stock condition survey and where necessary update the stock listing to reflect the updated data. Ensure the survey has covered all dwelling archetypes and fully resolves qualification issues. A clear and reliable audit trail should be established to support the entries in the claim.

**R3** Ensure evidence to support updated stock listing is retained. Going forward the Council should be able to demonstrate basis for dwelling type classification through agreement to evidence.

## Corporate & Financial Resources claims

**33** Performance in the certification of Corporate & Financial Resources grant claims in 2009/10 was consistent with the previous years. No matters arose over the standard of working papers, with the Authority providing prompt responses to the audit team's requests and queries.

**34** The National Non Domestic Rates (LA01) claim was certified with no issues raised. This is comparable to past certification work.

**35** The Pooling of Housing Capital Receipts (CFB06) claim required minor amendments to the entries for administration costs and improvement costs. The amendments were the results of errors in apportionment and eligibility of costs. The Council should ensure all attributable costs comply with the grant terms and conditions.

**36** A third claim New Deal for Communities (RG03) was certified by Newman & Partners. This arrangement is consistent with previous years and the results of their work are not included in this report. The Council have received authorisation from the grant paying body, the LDA, to approve this approach.

## Recommendation

**R4** Ensure costs identified in claim are:

- apportionments on a fair basis; and
- identified costs are eligible and meet grant criteria.

### Business Transformation claim

**37** For Teacher's Pensions (PEN05), the Council implemented our recommendation from the previous year and reviewed the claim prior to submission to ensure it agrees to payroll records. There was no qualification this year and only one minor amendment made to the claim, which did not impact the final claim figure.

### Children & Families claims

**38** The Children & Families department submitted three claims to be certified. All were received by the appointed deadlines. Performance on all claims was good with no significant matters arising. However minor amendments were needed on each claim, as detailed below.

**39** The General Sure Start (EYC02) claim did not cast correctly. The error was minor and had been picked up in the Council's initial review of the claim, but had not been changed. The certification methodology requires us to check the arithmetic on each claim, with no consideration for insignificant errors. Therefore it is important the Council ensures the casting is correct before submission to minimise avoidable amendments.

**40** The Council receives funding for two LDA claims, Single Programme (RG31) (Childcare Affordability Programme) and Single Programme (RG31) (Youth Offer Scheme).

**41** In both cases the claims value was misstated, with the value of grant offered on the claims not agreeing to the grant award letter. In addition the Youth Offer Scheme claim incorrectly included capital funding, which it had received in 2008/09 not 2009/10.

**42** These errors only required minor amendment, but indicate areas where more thorough review and agreement to the original award letters would have prevented avoidable mistakes.

## Recommendation

## Recommendation

- R5** Check arithmetic on all claims prior to submission to the audit team.
- R6** Agree grant funding award recorded on claim agrees to grant award letter.
-

## Appendix 1 Summary of 2009/10 certified claims

### Claims and returns above £500,000

Service	Claim	Pre-certification value £	Adequate control environment	Amended	Qualification letter
Corporate & Financial Resources	BEN01 Housing and council tax benefit	301,862,907	No	No	Yes
Corporate & Financial Resources	CFB06 Pooling of Housing Capital Receipts	686,027	No	Yes	No
Children & Families	EYC02 General Sure Start	11,915,288	No	Yes	No
Housing	HOU01 HRA Subsidy	19,366,989	No	No	No
Housing	HOU02 HRA Subsidy Base Data Return 2009/10	N/A	No	Yes	Yes
Housing	HOU21 Disabled Facilities	1,562,000	Yes	No	No
Corporate & Financial Resources	LA01 National Non-Domestic Rates	88,843,860	Yes	No	No
Business Transformation	PEN05 Teachers' Pensions	19,951,816	No	Yes (but no impact on claim amount)	No
Corporate & Financial	RG03 New Deal for	N/A	N/A	N/A	N/A

Service	Claim	Pre-certification value £	Adequate control environment	Amended	Qualification letter
Resources	Communities*				
Children & Families	RG31 LDA Single Programme (Childcare Affordability Programme)	467,763*	No	Yes	No

### Claims between £100,000 and £500,000

Service	Claim	Pre-certification value £	Amended
Children & Families	RG31 LDA Single Programme (Youth Offer Scheme)	234,426	Yes

\*Claim funding for projects is calculated based on funding received over the life of the project. RG31 LDA Single Programme (Childcare Affordability Programme) 2009/10 funding is £467,763, but project started in 2005/06 and total funding is over £500,000.

## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

The Certification Instructions provided to the Council include the Control Environment and Testing Assessment used to assess the claim control environment. The Council should review this document and consider how the claim is prepared, and how the control environment may be improved. Improvements can lead to:

- Limited testing (Part A only); or
- Reduced substantive testing.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 1

Consider findings of full stock condition survey and where necessary update the stock listing to reflect the updated data. Ensure the survey has covered all dwelling archetypes and fully resolves qualification issues. A clear and reliable audit trail should be established to support the entries in the claim.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 3

Ensure evidence to support updated stock listing is retained. Going forward the Council should be able to demonstrate basis for dwelling type classification through agreement to evidence.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 4

Ensure costs identified in claim are:

- apportionments on a fair basis; and
- identified costs are eligible and meet grant criteria.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	

**Recommendation 5**

Check arithmetic on all claims prior to submission to the audit team.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	

**Recommendation 6**

Agree grant funding award recorded on claim agrees to grant award letter.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	