

# Certification of claims and returns - annual report

London Borough of Brent  
Audit 2010/11



# Contents

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- Introduction.....3
- Summary of my 2010/11 certification work.....4
- Results of 2010/11 certification work.....6
- Summary of progress on previous recommendations .....12
- Summary of recommendations .....15
- Summary of certification fees .....17

# Introduction

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**Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and 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 to assess the control environment for the preparation of the claim or return to decide whether or not 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

The results of my certification work on the claims and returns for the year ended 31 March 2011 is summarised below. My overall conclusion is that the arrangements in place for preparation and certification of grants are reasonable. The level of claim qualification and amendments are not inconsistent with other London Boroughs. Generally, housing and council tax benefit claims are complex in nature and the amount of work required each year will depend on the type of claims selected for testing (testing requirements are prescribed by the Department). It is not uncommon for this claim to be qualified.

This year more work was required on the Housing finance base data return which has been used to form the basis of the new self-financing settlement. In 2009/10 this claim was heavily qualified for classification errors in the 2009/10 housing stock. The Council has made some considerable improvements in the quality of data this year, but there remain some residual stock inaccuracies which the Council will need to address.

Table 1: **Summary of 2010/11 certification work**

<b>Number of claims and returns certified</b>	
Total value of claims and returns certified	£473,346,235,
Number of claims and returns submitted for certification	9
Number of claims and returns amended due to errors	5
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	3
Total cost of certification work	£92,700*

\* includes estimate of time for finalisation in January 2012

**1** Revised certification guidance was issued requiring larger sample sizes for all claims certified in 2011/12. My overall grant fee has increased by 19 per cent on the total fee for 2009/10 to £92,500. This is largely attributable to a more complex case mix being randomly sampled in my audit of Housing and council tax benefit scheme (BEN01) and National non-domestic rates return (LA01). I have included a breakdown of fee by grant in the 'summary of certification fees' section of this report below.

# 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.

2 For claims and returns over £500,000, I assess the control environment for their preparation and decide whether or not I can place reliance on it. For one of the Council's eight claims and returns over £500,000 for 2010/11 I was able to place reliance on the control environment. I therefore performed limited tests to agree form entries to underlying records, but did not perform any testing of the eligibility of expenditure or data. For the remaining seven claims and returns, I completed full testing as I was not able to place reliance on the control environment because the claim or return was high value, technically complex and/or errors were found in the previous year.

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

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	£339,484,832	No – In line with the DWP's guidance, I performed mandatory testing of 80 cases.	0	Yes
Pooling of housing capital receipts	£790,927 *	No – This claim involves large values. I identified errors with premises expenses and legal costs in the 2009/10 claim.	£91,503 overstatement of amount payable – claim amended.	No

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	£5,738,616	No – This claim involves large values. I identified errors in the previous HOU02 claim.	Amendments made for errors found, but did not impact on amount of claim.	No
Housing finance base data return	£0	No – This claim is used to determine material payments to the Council from CLG. The base data relates to the Council's housing stock eg numbers, classification, age, etc. Furthermore, it was qualified in 2010/11 and increased risks associated with move to self-financing from 1 April 2012.	Amendments made for errors found, but did not impact on amount of claim.	Yes
National non-domestic rates return	£89,454,897	No – This claim has high values and involves a large volume of complex transactions.	£395 understatement of amount payable – claim amended.	No
Teachers' pensions return	£20,246,870	No – This claim includes high values. Errors were identified in prior year claim.	0	No
Sure start, early years and childcare grant and aiming high for disabled children grant	£15,566,032	No – This claim includes high values and increased risk as last year of the scheme and claim.	0	Yes
Childcare affordability programme	£476,285	No – claim below threshold and part A only performed.	Amendments made for errors found, but did not impact on amount of claim..	No

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	£1,680,000	Yes	0	No

\* this represents the net amount payable, presented for certification

## Detailed analysis

3 I have included a detailed analysis on claims where I issued a qualification letters or a significant amendment has been made.

### Housing and council tax benefit scheme (BEN01)

4 I issued my certification report on the BEN01 claim on 30 November 2010. The certification instructions agreed with DWP requires testing of twenty cases at random from each of the four main benefit types:

- Non HRA Rent Rebates;
- Rent Rebates;
- Rent Allowances; and
- Council Tax Benefit.

5 My initial testing of eighty cases identified eight cases with errors, I therefore extended my testing. I identified four further errors from the additional sample of a hundred and twenty cases. As a result of the errors found, a qualification letter was agreed with the Council. The level of errors found in 2010/11 were similar to the level of errors found last year. The types of errors found in 2010/11 are as follows.

- Minor variance (18p) in Children's allowance rate recorded on the system caused overpayments of benefits.
- Minor variance (£2) with in year reconciliation cells (similar errors identified in 2009/10).
- Incorrect use of deductions when calculating income (similar errors identified in 2009/10).
- Incorrect use of Local Housing Allowance room rate resulting in under payment of benefit.
- Miscalculation of average weekly income, pension income and student loan income (similar errors identified in 2009/10).
- Incorrect use of Severe Disability Premium.
- Incorrect application of tax credits (similar errors identified in 2009/10).
- Incorrect use of Employment Support Allowance.



6 No amendments were made for these errors in the 2010/11 claim. Our qualification letter reported a cumulative extrapolated error of £154,068. This error had no impact on the benefit claimed from the DWP or the level of funding to the Council. The Council will amend the Children's allowance rate error in the 2011/12 claim. The value of this is £86,558.

7 We reported our findings to the Department of Works and Pensions (DWP) in our qualification letter.

## Recommendation

**R1** Ensure arrangements are in place to feedback findings to benefit assessors, including the provision of training or further guidance.

**R2** Review quality control arrangements to minimise the errors identified in our testing.

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### Housing finance base data return (HOU2)

8 The government's proposal for Councils to adopt a self-financing model from 1 April 2012. Following on from a comprehensively qualified certification claim in 2009/10, the Department of Communities and Local Government (DCLG) required Brent to improve their housing data. As a result, the Council carried out a survey in 2010 to assess their property archetypes and ensure compliance with the certification instructions.

9 I carried out interim work on the survey and identified 1 error from the 20 properties sampled. The survey has significantly improved the accuracy of dwelling classifications from the 2009/10 year (25% error rate across multiple categories). The survey did not cover all properties, therefore the Council will need to continue improving its housing data.

10 My year end certification work did identify some classification errors. As a result of the errors, a qualification letter was agreed with the Council. The errors identified are as follows.

- The Council were unable to provide adequate supporting documents to evidence property classifications based on internal floor area.
- Testing on age classification of properties (sample of sixty three properties) identified seven misclassification errors. The errors related to a lack of supporting evidence.

## Recommendation

**R3** Retain survey evidence to support the classification of each dwelling.

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## **Sure start, early years and childcare grant and aiming high for disabled children grant (EYC02)**

**11** One of the two assets sampled could not be found on the fixed asset register. This error has no impact on the value of the claim, however it is important that the Council retains adequate asset records. This provides a sound basis for monitoring the ongoing use and ownership of the asset which is required by the Certification instructions.

**12** The Council's certificate ('declaration') should have been signed by one of the three authorised signatories listed in the Certification Instruction. However, it has been signed by the Deputy Director of Finance, who was not an authorised signatory.

**13** As a result of the two areas of non-compliance with the Certification Instruction guidance, a qualification letter was agreed with the Council.

### **Recommendations**

**R4** Reconcile sure start assets to relevant fixed asset registers to provide a sound basis to monitor and control use of assets funded by grant.

**R5** Ensure that claims are signed by authorised signatories per the relevant Certification Instructions.

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## **Pooling of housing capital receipts (CFB06)**

**14** My testing identified four errors within the claim:

- receipts included in the incorrect categories;
- duplication of a capital receipt between two categories;
- a property outside of the Housing Revenue Account was incorrectly included;
- eligible improvement costs overstated as they exceeded an item outside the allowable timeframe; and
- an error in apportioning administration costs related to disposals.

This resulted in a £91,503 overstatement of the amount payable to DCLG. The Council have amended the claim to correct the errors.

### **Recommendations**

**R6** Ensure costs identified in claim are:

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

**R7** Ensure receipts included in the claim are accurately recorded and meet the criteria for inclusion per Certification Instructions.

Table 3: **Claims between £125,000 and £500,000**

Claim or return	Value of claim or return presented for certification	Value of any amendments made	Qualification letter
Single programme	475,285	Amendments made for errors found, but did not impact on amount of claim.	No

# Summary of progress on previous recommendations

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

The Council has taken actions to implement the recommendations raised in 2009/10, with four out of five recommendations implemented/ implemented partially. A detailed summary of progress made is set out below.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p><b>Housing finance base data return (HOU2)</b></p> <p>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.</p>	High	30 September 2011	Assistant Director of Finance – Regeneration and Major Projects	Implemented partially	There has been an improvement in the 2010/11 data following on from a survey, however, a few errors were still found. In some areas, age classification and size of properties, there was a limited audit trail making it difficult to verify the results of the survey.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
					And the Council must continue improving data for all of its housing stock.
<p><b>Housing finance base data return (HOU2)</b></p> <p>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.</p>	High	30 September 2011	Assistant Director of Finance – Regeneration and Major Projects	Implemented partially	As above.
<p><b>Pooling of housing capital receipts (CFB06)</b></p> <p>Ensure costs identified in claim are:</p> <ul style="list-style-type: none"> <li>■ apportionments on a fair basis; and</li> <li>■ identified costs are eligible and meet grant criteria.</li> </ul>	Medium	30 September 2011	Deputy Director of Finance	Not implemented	This recommendation was raised in relation to the pooling of housing capital receipts claim in 2009/10. My 2010/11 certification work identified similar errors in apportionment and eligibility of costs.
<p><b>General</b></p> <p>Check arithmetic on all claims prior to submission to the audit team.</p>	Low	30 September 2011	Assistant Director of Finance – Children & Families	Implemented	There has been a significant improvement in arithmetic checks performed on claims submitted by the council in 2010/11.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
					We found no basic arithmetic errors in our testing in 2010/11.
<p><b>Sure start, early years and childcare grant and aiming high for disabled children grant (EYC02)</b></p> <p>Agree grant funding award recorded on claim agrees to grant award letter.</p>	Medium	30 September 2011	Assistant Director of Finance – Children & Families	Implemented	No issues identified in 2010/11.

# Summary of recommendations

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

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R1. Ensure arrangements are in place to feedback findings to benefit assessors, including the provision of training or further guidance.	High	The findings from the 10/11 grant process will be fed back to the assessors as part of the ongoing performance improvement process	31 March 2012	Head of Benefits
R2. Review quality control arrangements to minimise the errors identified in our testing.	Medium	Quality control reviews will incorporate the errors identified	31 March 2012	Head of Benefits
R3. Retain evidence to support survey of dwellings.	High	The evidence will be retained	31 March 2012	Assistant Director of Finance – Regeneration and Major Projects
R4. Reconcile sure start assets to relevant fixed asset registers to provide a sound basis to monitor and control use of assets funded by grant.	High	There will be no further grant claims for sure start. However the issue will be included in future guidance relating to grant funded	31 March 2012	Assistant Director of Finance – Children & Families

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R5. Ensure that claims are signed by authorised signatories per the relevant Certification Instructions.	Medium	assets The schedule of signatories will be reviewed for each individual claim prior to submission	31 March 2012	Grant claim co-ordinator
R6. Ensure costs identified in claim are: <ul style="list-style-type: none"> <li>■ apportionments on a fair basis; and</li> <li>■ identified costs are eligible and meet grant criteria.</li> </ul>	High	The guidance for all grant claims will emphasise these points. In addition a specific review of the pooling of housing capital receipts claim will be undertaken	31 March 2012	Deputy Director of Finance
R7. Ensure receipts included in the claim are accurately recorded and meet the criteria for inclusion per Certification Instructions.	High	Will be picked up in specific review referred to in R6	31 March 2012	Deputy Director of Finance



# 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 6: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Grants planning, supervision, review and finalisation	6,595	13,098	More review time allocated to individual grants, particularly Housing and Council tax benefit schemes.
Housing and council tax benefit scheme	47,828	32,440	Length of testing is dependant on the nature of the claims selected for testing. This year, a greater number of complex cases were selected in my sample. Additionally, more review allocated to specific grant and not overall supervision chargeable code.
Pooling of housing capital receipts	2,723	2,816	N/A
HRA subsidy	2,327	2,574	N/A
Housing finance base data return	13,009	7,562	Additional testing carried out during the interim stage in response to a DCLG letter. Delays in getting evidence to support housing demolitions entered on the claim led to late change to claim, and failures in classification testing of properties (this included an additional sample of 40 cases after an error was found).

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
National non-domestic rates return	8,638	3,949	Increased sample sizes in 2010/11 in revised auditor guidance.
Teachers' pensions return & Sure start, early years and childcare grant and aiming high for disabled children grant	9,940	11,516	Final year of Sure start grant with established projects, processes and controls. And improved information on teachers pensions for the claim.
Disabled facilities	973	1,201	Second year of revised approach, therefore efficiencies gained.
Single programme	668	2,382	Two claims were certified in 2009/10, of which one no longer applies from 2010/11.
Total	92,700*	77,538	

\* includes estimate to finalise grants reporting

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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.

