

# **Certification of claims and returns - annual report**

**Dudley Metropolitan Borough Council**

**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** Dudley Council receives more than £340 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

## Significant findings

**2** In 2009/10, my audit team certified 11 claims with a total value of £252 million. Of these, we carried out a limited review of 2 claims and a full review of 9 claims. Paragraph 8 below explains the difference. For 6 claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. A number of claims were subject to minor amendments. None of these amendments exceeded £10,000. Appendix 1 sets out a full summary.

## Certification fees

**3** The fees I charged for grant certification work in 2009/10 were £117,397.

## Actions

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

# Background

**5** The Council claims over £340 million 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 that the Council can evidence that it has met the conditions attached to each claim.

**6** 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 Dudley 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.

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

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

- For claims and returns below £100,000 the Commission does not make certification 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 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 from 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 that the audit fees for certification work are 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 grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**9** We aim to place reliance on the control environment for specific claims and returns wherever this is possible. In 2009/10 we were able to place reliance on the control environment for the disabled facilities claim prepared by the Directorate for Adults, Community Services and Housing.

**10** Appendix 1 shows that 6 of the 11 claims and returns submitted for certification were qualified. We will not be able to place reliance on the control environment for claims and returns which have been qualified until the Council can demonstrate that the issues that have given rise to the qualifications have been resolved. We will continue to work with the Council and will place reliance on its control environment wherever this is possible. If reliance is to be placed on the control environment in the future then the Council needs to be able to demonstrate a strong track record of submitting claims and returns for certification which do not result in amendment or qualification.

**11** Since our last annual report on certification of claims and returns the Council now requires a 'grant claim header sheet' to be completed when claims and returns are submitted to the Treasurer for signing. The grant claim header sheet requires officers to provide key data in respect of the claim or return and to confirm, amongst other things, that internal controls have been complied with. The grant claim header sheet was completed for 7 of the 11 claims and returns submitted for certification. Completion of the grant claim header sheet helps the Council to demonstrate that it has an adequate control environment in place.

### Recommendation

**R1** Management should ensure that a grant claim header sheet is completed for all claims and returns

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## Specific claims and returns

### Finance, ICT and Procurement

**12** Of the three claims and returns submitted by this Directorate, two were qualified. The housing benefit and council tax benefit subsidy claim was qualified because of a range of errors found in the calculation of benefits and the classification of benefit payments on the claim form. Most of the error rates found by sample testing were small but there were significant error rates in respect of the value of rent rebates and council tax benefits overpayments which the Council can claim subsidy on. When the Council

overpays benefit to a claimant it is required to classify the overpayment according to the reasons for the overpayment. If the overpayment has arisen because of errors made by the claimant then the Council is able to claim subsidy on the overpayment. However, if the overpayment is due to Council error then subsidy cannot be claimed. Testing found that the Council had overstated the value of overpayments which they can claim subsidy on and had consequently understated the value of overpayments on which no subsidy can be claimed. The Council have estimated that this should not have a significant impact on the total amount of subsidy due but this will not be confirmed until the Department for Works and Pensions considers the qualifications on the Council's claim and determines the total amount of subsidy to be paid for 2009/10. The Council intends to undertake further training of benefits staff to ensure that misclassification of overpayments can be reduced.

**13** The teachers' pensions return was qualified because sample testing found that pension contributions were being deducted from teachers who had opted out of the pension scheme. This error was found in respect of 2 teachers from a sample of 60 teachers for whom pension contributions were deducted. These issues were identified by comparing data held by the Council to data held by Teachers' Pensions (TP) who administer the pension scheme on behalf of the Department for Education (DfE). The Council have access to the data held by TP through an online system. Management intends to liaise with TP to ensure that the Council's pension records for all teachers are correct.

## Recommendations

**R2** Management should undertake further training of benefits staff to ensure that misclassification of overpayments can be reduced

**R3** Management should liaise with TP to ensure that the Council's pension records for all teachers are correct

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## Children's Services

**14** The Council receive a sure start, early years and childcare grant and aiming high for disabled children grant from the DfE. The claim was subject to a number of qualifications. These were in respect of an error made in apportioning costs between a school and a children's centres, the Council not being able to demonstrate that a small element of the short break services element of the grant was used for the purpose provided, the misclassification of capital expenditure between categories of capital expenditure on the claim form and the adequacy of asset records for assets purchased with this grant.

## Recommendation

**R4** Management should review the qualifications on the claim and take action to improve their processes in respect of the issues identified. This could involve introducing additional monitoring procedures, communicating further with relevant staff and updating asset records

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### Adults, Community Services and Housing

**15** Of the four claims and returns submitted by this Directorate, two were qualified. The pooled housing capital receipts return was subject to two qualifications:

- the return was qualified because we were not satisfied that the Council had sufficient records in place to document how receipts from land sales were to be used. The Department for Communities and Local Government (CLG) require such records to be kept
- the Council records the costs of conveyancing on the return. The return was qualified because these costs were calculated partly on the basis of conveyancing activity in the previous financial year.

**16** The Council are required by CLG to complete a HRA subsidy base data return. This is used by CLG to calculate the Council's housing subsidy entitlement. The return includes data on the Council's housing stock which is classified in a number of different ways, such as by age, dwelling type, etc. Previous certification work had not identified any concerns but the return was qualified three years ago because a dwelling had been misclassified on the Council's housing stock database (a dwelling had been recorded as being a semi-detached property when it was a detached property). This error was corrected but needed to be reported to CLG because we were unable to conclude that it was an isolated error. The Council proposed to address this issue by performing a formal check of property type as part of the HomeCheck inspection process. However, this had still not been done at the time that the latest return was certified and this fact was reported to CLG in a qualification letter.

## Recommendations

**R5** Management should ensure that it has sufficient records in place to document how receipts from land sales are to be used and that conveyancing costs recorded on the return are based on conveyancing activity for the relevant financial year

**R6** A formal check of property type should be performed as part of the HomeCheck inspection process. This check should be applied to all dwellings and cover all stock data which has to be recorded on the HRA subsidy base data return

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## Appendix 1 Summary of 2009/10 certified claims and returns

Directorate	Claim / return	Value £000	Adequate control environment	Amended by more than £10k	Qualification letter
Finance, ICT and Procurement	Housing benefit and council tax benefit subsidy	108,228	n/a (see note 1 below)	No	Yes
Finance, ICT and Procurement	National non-domestic rates	93,044	No	No	No
Finance, ICT and Procurement	Teachers pensions	21,297	No	No	Yes
Children's Services	Sure start, early years and childcare grant and aiming high for disabled children grant	11,510	No	No	Yes
Adults, Community Services and Housing	Housing subsidy	8,751	No	No	No
Urban Environment	Burnt Tree	3,758	No	No	No
Adults, Community Services and Housing	Pooled housing capital receipts	2,099	No	No	Yes
Adults, Community Services and Housing	Disabled facilities	2,012	Yes	No	No
Urban Environment	Brierley Hill sustainable access network	801	No	No	No

Directorate	Claim / return	Value £000	Adequate control environment	Amended by more than £10k	Qualification letter
Urban Environment	Dudley townscape heritage initiative	130	n/a (see note 2 below)	No	Yes
Adults, Community Services and Housing	HRA subsidy base data return	n/a (see note 3 below)	No	n/a (see note 3 below)	Yes

Note 1 - auditors do not assess the adequacy of the control environment for the preparation of the housing benefit and council tax benefit claim to decide whether or not they can place reliance on it. This is because the certification process agreed between the Audit Commission and the Department for Works and Pensions for this claim does not allow for reliance to be placed on the control environment.

Note 2 - the control environment is not assessed for this claim because the total grant claimable over the life of the project is below £500,000.

Note 3 - this return contains data which is used by Communities and Local Government to calculate subsidy entitlement. This data return does not record the value of subsidy entitlement.

## Appendix 2 Action plan

### Recommendations

#### Control environment

##### Recommendation 1

Management should ensure that a grant claim header sheet is completed for all claims and returns.

<b>Responsibility</b>	Accountancy Management Team/Corporate Finance
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<b>Priority</b>	High
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<b>Date</b>	April 2011
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<b>Comments</b>	Corporate Finance to check that grant claims have headers before they are submitted.
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#### Housing benefit and council tax benefit subsidy

##### Recommendation 2

Management should undertake further training of benefits staff to ensure that misclassification of overpayments can be reduced.

<b>Responsibility</b>	Deputy Head of Benefits (Technical)
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<b>Priority</b>	Medium
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<b>Date</b>	June 2011
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<b>Comments</b>	Benefits training team to draft training plan and undertake relevant training.
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#### Teachers' pensions

##### Recommendation 3

Management should liaise with TP to ensure that the Council's pension records for all teachers are correct.

<b>Responsibility</b>	Payroll Manager/HR Systems and Information Officer
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<b>Priority</b>	Medium
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<b>Date</b>	June 2011
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<b>Comments</b>	Discussion has taken place with TP who do not wish to commit themselves to working with the Local Authority as proposed, however we will endeavour to get TP to assist in this matter.
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## Sure start, early years and childcare grant and aiming high for disabled children grant

### Recommendation 4

Management should review the qualifications on the claim and take action to improve their processes in respect of the issues identified. This could involve introducing additional monitoring procedures, communicating further with relevant staff and updating asset records

<b>Responsibility</b>	Childrens Services Finance Manager
<b>Priority</b>	Medium
<b>Date</b>	April 2011
<b>Comments</b>	A full review will take place and monitoring processes improved.

## Pooled housing capital receipts

### Recommendation 5

Management should ensure that it has sufficient records in place to document how receipts from land sales are to be used and that conveyancing costs recorded on the return are based on conveyancing activity for the relevant financial year.

<b>Responsibility</b>	Housing Finance Manager
<b>Priority</b>	Low
<b>Date</b>	April 2011
<b>Comments</b>	We will contact CLG to ascertain whether the documentation is really required as prescribed. We do maintain a robust record of our capital allowance to support deductions from poolable receipts.  We will review the methodology used to record conveyancing costs on the return.

## HRA subsidy base data return

### Recommendation 6

A formal check of property type should be performed as part of the HomeCheck inspection process. This check should be applied to all dwellings and cover all stock data which has to be recorded on the HRA subsidy base data return.

<b>Responsibility</b>	Housing Finance Manager
<b>Priority</b>	Medium
<b>Date</b>	January 2011
<b>Comments</b>	A revised Homecheck system using mobile devices and incorporating a check of property type is now in operation.

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