

Certification of claims and returns - annual report

Dudley Metropolitan Borough Council

Audit 2010/11



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Introduction

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 2010/11 certification work

The Council continues to improve its performance preparing claims and returns.

My work gave rise to amendment of five of the ten claims and returns for the year ended 31 March 2011 that the Council was required to submit for certification. I have issued a qualification letter accompanying my certificate on five claims and returns.

Table 1: Summary of 2010/11 certification work

Number of claims and returns certified	
Total value of claims and returns certified	£272,542k
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	5
Total cost of certification work	£108k

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.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	113,981	No – 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	-£585	Yes – a range of errors were found in the calculation of benefits and classification of benefit payments on the claim form. This is detailed further below.

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
National non-domestic rates return	86,010	No – this is a high value, relatively complex return which is based on a large number of transactions	None	No
HRA subsidy	27,341	No – this is a complex claim and annual certification work regularly results in amendments to the claim	£12,575	No
Housing finance base data return	n/a – 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.	No – this return has been qualified regularly in recent years and annual certification work regularly results in amendments to the return	A number of amendments were made to the return. It is not possible to quantify the financial impact of these amendments as the return does not record the value of subsidy entitlement	Yes – the reasons for the qualification letter being issued are detailed further below
Teachers' pensions return	21,694	No – the return was qualified in 2009/10 because pension contributions were being deducted from teachers even though they had opted out of the teachers' pension scheme	-£9,396	Yes – the reasons for the qualification letter being issued are detailed further below

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Sure start, early years and childcare grant and aiming high for disabled children grant	12,771	No – this claim has regularly been qualified in recent years	None	Yes – the reasons for the qualification letter being issued are detailed further below
Local transport plan: major projects – Burnt Tree	4,480	No – this is the second year of expenditure being claimed on this project and a sizeable proportion of the total sum to be claimed over the life of the project was claimed in 2010/11	-£1,000	Yes – the claim was qualified because of a £1,000 error found in respect of expenditure being claimed which was not in respect of the Burnt Tree scheme and also because of a minor breach of the Council's Standing Orders.
Pooling of housing capital receipts	3,769	No – the return was qualified in 2009/10 and therefore we were not able to place reliance on the control environment for 2010/11	None	No – the issues raised in the qualification letter on the 2009/10 return were addressed for 2010/11
Disabled facilities	2,012	Yes	None	No
Local transport plan: major projects – Brierley Hill Sustainable Access Network	484	Yes	None	No

Housing and council tax benefit scheme

The housing benefit and council tax benefit subsidy claim was qualified because of a range of errors found in the calculation of benefit and 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 for council tax benefit 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 is due to claimant error then the Council can claim subsidy on the overpayment. 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 it can claim subsidy on and understated the value of overpayments on which subsidy cannot be claimed. The Council has estimated that this should not have a significant impact on the total amount of subsidy due but this will not be confirmed until the DWP considers the qualifications on the Council's claim and determines the total amount of subsidy to be paid for 2010/11. There were similar findings in respect of the 2009/10 claim and the Council undertook to provide further training to benefits staff to ensure that misclassification of overpayments could be reduced. The Council should continue to provide this training to staff.

Housing finance base data return

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 four 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. The Council introduced a process of HomeCheck inspections during 2010/11 but was not able to demonstrate that the data collected in the inspections was used to update the housing stock database which is the source of the entries on the return. The inspections also did not cover all aspects of the dwelling classification which are required for the return. The Council reported in their response to the qualification letter that the inspection process had not identified any changes needed to the housing stock database. DCLG have written to the Council in response to the qualification letter and have indicated that they will be discussing the issues raised in the letter with the Council later in 2012.

Teachers' pension return

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 is working with TP to ensure that the Council's pension records for all teachers are correct.

Sure start, early years and childcare grant and aiming high for disabled children grant

This claim was qualified because:

- it included a provision made for the potential costs of an equal pay settlement for Children Centre staff. This issue was reported to the Department for Education because the Council were not able to demonstrate that this was eligible expenditure for the claim;
- of concerns over the adequacy of asset records for assets purchased with this grant; and
- of non-compliance with the Council's Standing Orders in respect of contracts awarded.

It should be noted that 2010/11 was the last year of this scheme.

Summary of progress on previous recommendations

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

Table 3: 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>1 Control environment</p> <p>Management should ensure that a grant claim header sheet is completed for all claims and returns</p>	High	April 2011	Accountancy Management Team/Corporate Finance	Partially implemented	No grant claim header sheet completed for Teachers' Pension return, National non-domestic rates return and Sure Start early years and childcare grant and aiming high for disabled children grant
<p>2 Housing benefit and council tax benefit subsidy</p> <p>Management should undertake further training of benefits staff to ensure that misclassification of overpayments can be reduced.</p>	Medium	June 2011	Deputy Head of Benefits (Technical)	Implemented	The Council has carried out training covering various issues such as common inputting errors, backdating, benefit start dates and pension credits.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>3 Teachers' Pensions</p> <p>Management should liaise with Teachers Pension Agency (TPA) to ensure that the Council's pension records for all teachers are correct.</p>	Medium	June 2011	Payroll Manager/HR Systems and Information Officer	Partially implemented	TPA is now liaising with the Council to ensure that pension records are correct. The Payroll Manager expects that the exercise will be completed by end of the 2011/12 financial year.
<p>4 Sure start, early years and childcare grant and aiming high for disabled children grant</p> <p>Management should review the qualification on the claim and take action to improve their processes in respect of the issues identified. This could involve introducing additional monitoring procedures, communication further with relevant staff and updating asset records.</p>	Medium	April 2011	Children's' Services Finance Manager	Partially implemented.	The 2010/11 claim was qualified for the reasons given above

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<p>5 Pooled housing capital receipts</p> <p>Management should ensure that it has sufficient records in place to document how receipts from 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.</p>	Low	April 2011	Housing Finance Manager	Implemented	The 2010/11 claim was not qualified.
<p>6 HRA subsidy base data return</p> <p>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.</p>	Medium	Housing Finance Manager	January 2011	Partially implemented	See comments above

Summary of recommendations

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

Table 4: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
Management should ensure that a grant claim header sheet is completed for all claims and returns.	Medium	Grant claims will be checked to ensure header sheets have been completed prior to authorisation.	April 2012	Group Accountant (Corporate Finance & Systems)
Management should continue to undertake training of benefits staff to ensure that issues raised in qualification letters are addressed	Medium	Training will be undertaken by the Benefits Training Team relating to those issues identified by external audit and mentioned in the qualification letter	April 2012	Deputy Head of Benefits
Management should continue to liaise with the TPA to ensure that the Council's pension records for all teachers are correct.	Medium	The Payroll team will work more closely with the TPA to increase the checking of pension records to ensure they are correct and consistent	April 2012	Payroll Manager
Management should respond promptly to any information requests made by DCLG in respect of the qualifications on the HRA base subsidy data return	Medium	We will continue to respond promptly to information requests from DCLG on the subsidy return.	April 2012	Housing Finance Manager

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 5: Summary of certification fees

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	£36,426	£46,448	We have developed good joint working arrangements with the Council. This involves Council staff performing testing on benefits cases which we then review and place reliance on
National non-domestic rates return	£10,683	£8,448	Guidance on sample sizes was provided to auditors for 2010/11 which had not been provided previously. This resulted in larger sample sizes being tested on this return and, hence, more time being spent on the return
HRA subsidy	£7,658	£5,647	A number of amendments were made to the 2010/11 return following our certification work and this increased the time spent on the return compared to the previous year
Housing finance base data return	£11,898	£7,248	The move to HRA self-financing resulted in additional tests needing to be performed on the return which were not required in previous years. This increased the time spent on the return. In addition, a number of amendments were made to the return following our work and issues arose which required qualification of the return. This also increased the time spent on the return

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Teachers' pensions return	£10,948	£7,222	We experienced a number of difficulties in getting prompt responses to our queries which increased the amount of time spent on the return. A number of amendments were made to the return following our work which also resulted in an increase on time spent on this return
Sure start, early years and childcare grant and aiming high for disabled children grant	£17,720	£20,249	In previous years we have experienced difficulties in getting prompt responses to queries. Revised arrangements for getting responses to queries were introduced for 2010/11 and these helped to reduce the time spent on the claim
Local transport plan: major projects – Burnt Tree	£6,655	£6,755	n/a
Pooling of housing capital receipts	£1,965	£4,488	Issues arose in 2009/10 which required qualification of the return. No such issues arose in 10/11
Disabled facilities	£2,302	£2,975	We continued to rely on the control environment for this claim in 2010/11. There was a small decrease in the fee charged which reflected use of different grades of staff between 2009/10 and 2010/11
Local transport plan: major projects – BHSAN	£1,409	£2,509	We relied on the Council's control environment for the first time in 10/11. This meant that less testing was required than in previous years and hence there was a reduction in the fee
Total	£107,664	£111,989	

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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.

