

Certification of claims and returns – annual report

Norwich City Council

Audit 2008/09

May 2010



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- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

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 2008/09 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 Norwich City Council receives significant amounts of 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.
- 2 In 2008/09, we were responsible for certifying nine claims with a total value of £141 million. Of these, we carried out a limited review of three claims and a full review of six claims. Paragraph 8 explains the difference between these types of reviews. We amended all six claims requiring full certification for errors. For four claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

Certification fees

- 3 The fee charged for grant certification work relating to 2008/09 was £146,674.

Actions

- 4 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed action plans to respond to these.

Background

- 5 The Council receives significant amounts of funding 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 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 Norwich City Council. We 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 claim 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** The Council's arrangements for managing and quality assuring grant claims submitted for audit are variable and require further improvement if audit fees are to be reduced. The arrangements for putting in place appropriate controls over grants, together with ensuring that grant claims are prepared on time and to the appropriate quality standard, rest with a variety of individuals across the Council. The Council has not yet put in place effective arrangements to manage and ensure appropriate quality assurance for all grant claims across the Council. This might be achieved, for example, by the Finance Department reviewing all claims prior to presentation for certification. The review process should include consideration of any claim errors and/or qualification issues reported in the prior year, as, in some cases, issues have been repeated in subsequent years' claims.
- 10** My comments are reinforced by the fact that, where claims were subject to full review, all of the claims were subject to amendment and/or qualification in 2008/09.
- 11** Key control environment weaknesses include:
- a lack of a robust review process to ensure the grant is prepared in full accordance with the grant terms and conditions for some grant claims - currently the level of review varies across the claims. Details of issues arising from our review are set out in the subsequent sections by grant type;
 - no Internal Audit review of claims; and
 - gaps and weaknesses in supporting working papers (although some improvements on earlier years have been noted).

Recommendation
<p>R1 Establish effective arrangements across the Council to manage and quality assure all grant claims prior to submission for certification. This might be achieved, for example, by the Finance Department reviewing all claims prior to presentation for certification.</p>

- 12** An assessment of the control environment is not undertaken in relation to housing and council tax benefit, as the HB COUNT (Collect Once Use Numerous Times) audit approach is applied to this claim. This integrates the work required for the certification of the claim with data quality and audit opinion work.

Housing benefit and council tax benefit subsidy (HB) - claim value £62,715,607

- 13** We found a number of errors in our sample testing of the 2008/09 housing benefits claim. The Department for Work and Pensions require additional testing to be carried out when such errors are detected so that they can reach a view regarding the financial implications. The completion and review of this additional testing meant that we were unable to submit the certified claim by the 30 November 2009 deadline.

Testing of individual cells

- 14** A key element of the HB audit involves taking an initial sample of benefit cases from the headline cells on the Council's subsidy claim form and undertaking detailed testing on these cases. The initial sample was ten new claim cases and ten changes of circumstance cases for each of the four benefit types: non-Housing Revenue Account (HRA) rent rebates, rent rebates, rent allowances and council tax benefit.
- 15** Where testing identifies case failures within the initial sample, and the auditor is unable to conclude that an amended claim will be fairly stated, an additional sample of 40 cases is required to be tested for each type of benefit payment where case failures were identified (eg assessment of eligible expenditure, categorisation of overpayments).
- 16** We identified a significant number of case failures during our initial sample testing. The test failure rate was substantially higher than that experienced in previous years. The housing benefits claim is produced from the supporting housing benefits system and includes a substantial amount of transactions, which have increased in 2008/09. The errors found included both system-derived errors and human errors.
- 17** The initial test failures resulted in extensive further testing covering 14 additional samples of 40 cases as follows.

Table 1 Cells where an additional 40 cases were selected for testing

Cell	Description
11	Non HRA rent rebate benefit expenditure (due to case failures in the underlying cells 15, 16 and 19)
28	Non HRA rent rebate benefit eligible overpayments
20	Non HRA rent rebates - expenditure up to and including the threshold
60	HRA Rent Rebates Total Expenditure
64	HRA rent rebate benefit Local Authority (LA) error overpayments
66	Rent rebate benefit eligible overpayments
102	Rent Allowance- Expenditure excluded from requirement to refer to the Rent Officer (tested via cell 94)
103	Local Housing Authority (LHA) benefit expenditure
108	Rent Allowance - LA Overpayments

Findings

Cell	Description
109	Rent allowance benefit eligible overpayments (current year)
144	Council Tax Benefit - Total expenditure (Benefit Granted)
148	Council tax benefit eligible overpayments
149	Council Tax - Technical Overpayments
154	Council Tax - Eligible Overpayments (prior year)

- 18 This additional testing (some of which was carried out by the Council which we reviewed on a sample basis) identified further case failures. Due to both the nature and frequency of these errors, and the volume of cases in the cells subject to review, we were unable to conclude that an amended claim based on the extrapolated findings would be fairly stated. We reported these matters in a qualification letter accompanying the certified grant claim to the Department for Work and Pensions on 29 April 2010.
- 19 In addition to the matters included in table 1 above, we also detected errors in the following cells. In these cases we were able to agree a small revision to the claim.
- Cell 26 - overpaid non-HRA rent rebates classified as LA error.
 - Cell 214 - modified schemes; expenditure due to the voluntary disregarding of War Disablement Pensions or War Widows Pensions.
- 20 There were many reasons for the failures identified. Common themes were:
- incorrect allocation of homeless people rent rebates between the threshold and capped expenditure levels required in the claim - a system-derived issue;
 - incorrect assessment of claimants' income resulting in overpaid benefit;
 - misclassification of overpayments;
 - incorrect classification of extended payments;
 - claims or changes in circumstance being assessed when the supporting evidence was incomplete; and
 - claims and changes in circumstances being actioned from the wrong date.
- 21 We also concluded that the Council was not meeting the requirements in respect of un-cashed payments identified in the financial year of issue which should be deducted from the claim.

Recommendations	
R2	Improve staff training and quality control procedures to ensure that housing and council tax benefits are correctly awarded and that amounts are correctly treated for subsidy purposes.
R3	Review the testing failures in 2008/09. Perform early testing of 2009/10 housing and council tax benefits already awarded to ensure that housing and council tax benefits have been correctly awarded and that amounts are correctly treated for subsidy purposes

Pooling of housing capital receipts - claim value £963,862

- 22** Two issues were reported in a qualification letter submitted with the audited return:
- the Council had not maintained sufficiently detailed records to enable it to allocate overhead costs to specific right-to-buy disposals. We also concluded that the Council's methodology incorrectly resulted in the inclusion of an element of general overheads which is not permitted under the certification instructions; and
 - a lack of evidence to support the reasonableness of applying an average cost per property for improvements which were carried out across 36 properties.
- 23** The Council was unable to amend the return in respect of these issues and they were reported in a qualification letter submitted with the audited return. The Council submitted an accompanying letter to the Department for Communities & Local Government (CLG) setting out their rationale for the treatment, as, notwithstanding the requirements of the certification instructions, the Council considered the treatment to be acceptable.
- 24** In addition to the two matters discussed above, we also agreed changes to the return as follows.
- A reduction of £8,176 in respect of the deduction allowed for costs of capital improvements on disposed properties in the three years before disposal. This was to replace average standard costs used for three properties with actual costs.
 - A reduction of £17,715 in respect of the deduction for administration costs associated with disposals. This was due to a more accurate assessment of the percentage of right-to-buy sales completed, and the correction of a formula error in the supporting working papers.
 - An increase of £1,512,000 in the amounts disclosed as received from disposals of other interests in housing land (ie excluding right-to-buys). There was no impact on the amount due for pooling as a result of this correction as an equivalent adjustment was made to the capital allowance offset.

Findings

Recommendations

- R4** Ask the Department for Communities and Local Government for a response to the Council's letter on the qualification issues and share that response with the Auditor. In the meantime:
- consider if the methodology for attributing overheads to disposals can be refined so that it fully accords with the certification requirements. Ensure that supporting working papers are reviewed for accuracy before presenting the return for certification; and
 - review the documentation retained to support improvement additions to the Council's housing portfolio. Where improvement costs are spread over a number of houses as a result of an improvement project, obtain appropriate evidence to support an average allocation (where appropriate) or apply more accurate estimates of the split per property based on the evidence obtained.
- R5** Improve the data capture for the disposals to be included in the claim, and fully reconcile the disclosures to the financial statements.

Housing Revenue Account (HRA) subsidy base data return

- 25** We raised four matters in our qualification letter, the most significant of which were:
- the failure to apply a permissible consolidated rate of interest (CRI) on borrowing, as a management decision was taken to continue to apply the prior year rate. We were unable to confirm that the Council had the discretion to set a rate of interest on HRA mortgages that is not the higher of the national rate and the local CRI (as required by the return instructions). The Council did not have a letter of authorisation from the Secretary of State, and retrospective approval was not received; and
 - failure to provide appropriate supporting evidence for an entry (£14,371) relating to leased properties at Lowes Yard, Norwich.
- 26** In addition to the matters discussed above, we also agreed changes to the return as follows.
- A reduction of £462,700 in the disclosed total housing stock value following conversion to 'non-cluster' dwellings due to the application of a five bedroom property type rather than the correct three bedroom property type.
 - Revisions to caps and limits based on the latest guidance.

Recommendations

- R6** Apply the most up to date version of the guidance before presenting the claim for certification, and ensure that all requirements are correctly applied. Pay particular regard to the application of the consolidated rate of interest.
- R7** Obtain the necessary information for the leased properties at Lowes Yard, Norwich to ensure that the next subsidy base data return is correctly prepared.

R8 Put in place an appropriate level of internal review where technically complex data amendments are made, such as for conversions to non-cluster dwellings, to ensure that they are error free.

New Deal for Communities - claim value £2,099,601

- 27** Norwich City Council is the Accountable Body for the New Deal for Communities - North Earlham, Larkman and Marlpit (NELM) funding. The NELM Development Trust is the partnership body which administers the funding.
- 28** Whilst we noted some improvements on earlier years' certifications, we submitted a lengthy qualification letter to CLG as a result of our work on the 2008/09 claim. Key matters reported in the qualification letter were as follows.
- The Management and administrative (M&A) payments disclosed in Schedule 1 of the claim. Notably we raised concerns that that, even when 10 per cent of asset disposal proceeds and project generated income are taken into account towards eligible M&A spend, there is a risk that the 10 per cent overall limit will be exceeded. The Council, as Accountable Body should progress its discussions with CLG as the New Deal ten year funding agreement ceases on 31 March 2010.
 - Failure to abide by the scheme regulations in respect of changes to projects, resulting in the inclusion of ineligible costs of £55,953 because project change requests for two projects were submitted by the NELM Development Trust after the additional expenditure had been made. These retrospective submissions were not approved by GO-East. We have previously raised concerns that the purpose of one of these projects is not primarily for the benefit of the New Deal neighbourhood.
 - Insufficient audit trails to support amounts disclosed as approved for two projects, and for one payment made (from a sample tested).
 - The failure of the Council, as Accountable Body, to make appropriate checks on payments made to partners delivering grant activities, or to obtain independently audited statements from those partners certifying the eligibility of receipts and payments.
 - A lack of clarity regarding the extent that New Deal internally generated receipts and/or proceeds from the sale of New Deal capital assets are planned and monitored during the year, particularly for projects which are also supported by in-year grant. It is unclear whether the New Deal Partnership could be spending more than intended on any particular project via the use of this internally generated and capital income. It is also possible that such internally generated income could be used to fund capital expenditure where not intended to do so.
 - A total overspend of £124,083 on projects in excess of amounts approved, although £95,115 of this was covered by self generated income intended to offset the expenditure.

Findings

- The New Deal capital inventory maintained by the Council cannot yet be reconciled to the cumulative capital expenditure claimed on the certified grant claims. The Council is continuing to work to resolve these historical issues.
 - Concerns regarding the New Deal Partnership's arrangements to ensure that contracts are awarded fully in accordance with its standing orders and appropriate EU legislation.
- 29** In addition to the matters included in our qualification letter there were a large number of amendments to the claim presented for certification.
- 30** As noted above, the ten year funding agreement for New Deal ceases on 31 March 2010, with the final claim to be submitted for audit by 30 September 2010. Given this short timescale we appreciate that there is limited time to make substantial improvements to the arrangements where we have raised concerns. We suggest that the Council reviews the qualification letter in conjunction with the NELM Development Trust and CLG to focus attention on the matters of most concern to CLG. We have therefore only raised one recommendation in respect of this claim.

Recommendation

- R9** Review the 2008/09 New Deal qualification letter in conjunction with the NELM Development Trust and CLG to focus attention on the matters of most concern to CLG in the run up to final certification of the grant funding.

EEDA Single Programme St Anne's Wharf - claim value £730,000

- 31** A number of changes were required to the claim presented for certification as:
- the project details were incomplete;
 - the eligible expenditure had not been appropriately analysed; and
 - an interim grant receipt of £657,000 was excluded from the claim form.
- 32** The above issues would have been picked up had an appropriate level of review and quality assurance been applied - see recommendation 1 above.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing benefit and council tax benefit subsidy	62,715,607	Not assessed under the HB COUNT approach	Yes	Yes - yet to be issued
Pooling of housing capital receipts	963,832	No	Yes	Yes
HRA subsidy	-5,790,901	No	Yes	No
HRA subsidy base data return	n/a	No	Yes	Yes
National non-domestic rates return	67,982,013	Yes	No	No
New Deal for Communities	2,099,601	No	Yes	Yes
EEDA Single Programme - St Anne's Wharf	730,000	No	Yes	No

Claims between £100,000 and £500,000

Claim	Value £	Amended
Disabled facilities	270,000	No
EEDA Single Programme - St Andrews	375,000	No

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Claims and Returns Report 2008/09 - Recommendations						
5	R1 Establish effective arrangements across the Council to manage and quality assure all grant claims prior to submission for certification. This might be achieved, for example, by the Finance Department reviewing all claims prior to presentation for certification.	3	Head of Finance	Yes	We agree with the Audit Commission recommendation and are in the process of establishing procedures to ensure all grants are reviewed by Finance. Some areas subject to grants are included in the internal audit plan for 2010/11, eg LEGI, HCA, NELM.	August 2010
Housing benefit and council tax benefit subsidy						
8	R2 Improve staff training and quality control procedures to ensure that housing and council tax benefits are correctly awarded and that amounts are correctly treated for subsidy purposes.	3	Revenues & Benefits Manager	Yes	A plan for extra 'back to basics' training has been agreed and will be delivered by the training officer to all benefits staff, starting in July. There is an ongoing process to improve quality control procedures.	July 2010 Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R3 Review the testing failures in 2008/09. Perform early testing of 2009/10 housing and council tax benefits already awarded to ensure that housing and council tax benefits have been correctly awarded and that amounts are correctly treated for subsidy purposes.	3	Revenues & Benefits Manager	Yes	The failures of 2008/09 are already in the qualification letter and will be further reviewed so that any issues arising with DWP on the qualification can be considered. Early testing will be performed and sampling extended if problems found, in order to minimise issues when the audit is carried out.	Immediate
Pooling of housing capital receipts						
9	R4 Ask the Department for Communities and Local Government for a response to the Council's letter on the qualification issues and share that response with the Auditor. In the meantime: <ul style="list-style-type: none"> consider if the methodology for attributing overheads to disposals can be refined so that it fully accords with the certification requirements. Ensure that supporting working papers are reviewed for accuracy before presenting the return for certification; and 	2	Finance Control Manager	Yes	We will ask for a response. We consider that the current methodology accords with the Capital Financing Regulations, but will review this on receipt of CLG's response.	May 2010 TBC

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> review the documentation retained to support improvement additions to the Council's housing portfolio. Where improvement costs are spread over a number of houses as a result of an improvement project, obtain appropriate evidence to support an average allocation (where appropriate) or apply more accurate estimates of the split per property based on the evidence obtained. 				We will review the documentation available under the new repairs & improvement contract. However, in many instances, we continue to consider that the cost of works attributable to each property under a multi-property scheme will be the average cost.	March 2011
9	R5 Improve the data capture for the disposals to be included in the claim, and fully reconcile the disclosures to the financial statements.	2	Finance Control Manager	Yes	We are continuously seeking to improve our data capture, analysis, and validation.	Ongoing
HRA subsidy base data return						
9	R6 Apply the most up to date version of the guidance before presenting the claim for certification, and ensure that all requirements are correctly applied. Pay particular regard to the application of the consolidated rate of interest.	2	Finance Control Manager	Yes	We will comply with all available guidance.	Immediate
9	R7 Obtain the necessary information for the leased properties at Lowes Yard, Norwich to ensure that the next subsidy base data return is correctly prepared.	1	Finance Control Manager	Yes	We will pursue the missing information. In the meantime we will rely on previously audited claim entries.	Immediate

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R8 Put in place an appropriate level of internal review where technically complex data amendments are made, such as for conversions to non-cluster dwellings, to ensure that they are error free.	2	Finance Control Manager	Yes	We will continue to carry out internal review of claim entries prior to submission for audit, though this cannot eliminate 'errors' arising out of differing interpretations by the Council and the Audit Commission of ambiguous or incomplete guidance.	Immediate
New Deal for Communities						
11	R9 Review the 2008/09 New Deal qualification letter in conjunction with the NELM Development Trust and CLG to focus attention on the matters of most concern to CLG in the run up to final certification of the grant funding.	3	Head of Finance	Yes	Awaiting on CLG to confirm meeting on finalisation of total grant claim.	Immediate

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