

# Certification of claims and returns - annual report

Norwich City Council  
Audit 2010/11



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# 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 Council continues to improve its preparation of grant claims. However, claims production remains variable and the Council should make further improvement.**

My work resulted in amendments in three of the four claims and returns certified so far. I issued a qualification letter on one of these claims.

My work is not yet complete on two claims, the housing and council tax benefit scheme claim and the HRA subsidy claim. Where claims work is continuing I have included the latest position on issues arising from the certification work in this report. At this stage I can confirm that I plan to issue a qualification letter on the housing and council tax benefit scheme claim.

Once I have completed the two outstanding pieces of certification work I will revise and reissue my report.

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

Number of claims and returns certified	
Total value of claims and returns certified	£78,104,000
Total value of claims and returns where certification is not yet complete (gross)	£80,311,000
Number of claims and returns where certification is not yet complete	2
Number of certified claims and returns amended due to errors	1

Number of claims and returns certified	
Number of certified 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.	1
Total cost of certification work – estimated to complete all certifications	£101,167

### Control environment

The Council's overall control environment for producing grant claims has been maintained or improved in some instances. Further improvements would help to reduce the time my team has to spend in certifying claims. Potential areas to focus on include:

- extending quality control arrangements to incorporate the working papers which support the claim. My work continues to find instances where claims have to be amended to reflect errors in the supporting working papers. While this has not necessarily affected the overall value of the claim or return, such issues increase the amount of auditor and officer time spent to complete the claim;
- documenting the controls that officers have applied in preparing the claim;
- using Internal Audit to review claims and working papers before they are presented for audit;
- extending analytical review procedures (current year to prior year and between iterations of the current year claim) to all claims; and
- ensuring that, where relevant, working papers supporting the claim are fully reconciled to the Council's financial statements.

### Recommendation

- R1** Set up effective arrangements across the Council to manage and quality assure all grant claims before submission for certification. Specifically:
- extend quality control arrangements to incorporate the working papers which support the claim;
  - document the controls that officers have applied in preparing all claims;
  - use Internal Audit to review claims and working papers before they are presented for audit;
  - extend analytical review procedures (current year to prior year and between iterations of the current year claim) to all claims; and
  - ensure that, where relevant, working papers supporting the claim are fully reconciled to the Council's financial statements.

# 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.**

There has been some improvement in the claims presented for certification. In particular, the Council has resolved the qualification letter issue reported in the 2009/10 pooling of housing capital receipts return and I certified the return without the need for a qualification letter in 2010/11. The housing and council tax benefits claim continues to contain a number of errors, although the Council's efforts to improve this claim are beginning to show results. It needs to remain an area of focus.

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 (£'000)	Was a qualification letter issued?
Housing and council tax benefit scheme	74,194	Not assessed under the HB COUNT approach	Work remains in progress at 31 January 2012 but the current level of agreed amendments is less than £1,000.	Work remains in progress at 31 January 2012. We plan to issue a qualification letter.
Pooling of housing capital receipts	1,689 (payment total)	No – as I qualified the claim in 2009/10	1.7 (payment total)	No

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made (£'000)	Was a qualification letter issued?
HRA subsidy	- 6,117	Yes	Work remains in progress at 31 January 2012.	Work remains in progress at 31 January 2012.
Housing finance base data return	n/a	No – as I qualified the claim in 2009/10.	I agreed four changes to the base data.	Yes
National non-domestic rates return	70,383	No – as subject to full testing under the three year cycle.	I agreed a presentational change to the return.	No

### Housing and council tax benefit scheme

I do not carry out an assessment of the control environment for the housing and council tax benefit scheme as the HB COUNT<sup>i</sup> certification approach is applied to this claim. This approach is agreed with the Department for Work and pensions (DWP) and integrates the work required for the certification with audit opinion work.

The Council produces the housing benefits (HB) return from the supporting housing benefits system and this includes many transactions. Certification work in 2008/09 and 2009/10 detected a number of errors and I issued qualification letters in both years.

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. We are required to review an initial sample of 20 for each of the four benefit types: non-Housing Revenue Account (HRA) rent rebates, rent rebates, rent allowances and council tax benefit.

Where testing identifies case failures within the initial sample, or the results are not in line with auditor expectations, and the auditor is unable to conclude that an amended claim will be fairly stated, an extra sample of 40 cases has to be tested for each type of benefit payment.

<sup>i</sup> Count Once Use Numerous Times

The Council carried out early additional '40+' testing on ten of the cells most likely to be affected by ongoing issues found in the 2008/09 and 2009/10 claims. This has speeded up certification and continues to help to secure fee reductions for the Council. The Council's early testing detected a number of errors in the sample tested. The errors found included both system-derived errors and manual errors. The results of my team's testing also detected some errors, although the number of errors detected in our initial samples has reduced from that detected in 2009/10.

The errors indicate that continued staff training would be worthwhile, focussing on:

- ensuring income is correctly assessed (incorrectly determining income has led to both over and underpaid awards of benefit); and
- classifying over payments correctly. Particular attention should be paid to correctly inputting the date of receipt of evidence. Additionally, continued staff training on the definitions of overpayment types should be carried out as we continue to see a relatively high level of error. The new Quality Assurance Team which has been put in place from April 2012 should help reduce the level of previously undetected error for 2011/12.

The Council up-rates war and state pensions by a percentage to derive income used to assess benefit rather than applying individual details received from the DWP via Electronic Transfer of Data (ETDs). The use of a general up-rating saves some time, but its continued use increases the risk of divergence of actual income from that used in the benefit calculations. This may result in the Council classifying more benefit payments as Local Scheme (war disability pension) cases rather than the corresponding rent rebate, rent allowance or council tax benefits. Local scheme entries (£96,179 for 2010/11) only receive 75 per cent of the corresponding payment as subsidy. Officers should consider implementing the use of ETDs rather than up-rating. An initial area of focus could be to review the local scheme cases.

## Recommendations

**R2** Continue staff training on the assessment of benefits and the use of the benefits system. Particular attention should be paid to:

- correctly assessing of income;
- correctly classifying overpayments; and
- correctly inputting the date of receipt of evidence.

**R3** Consider the advantages of using the DWP Electronic Transfer of Data to input war and state pensions into the benefits system rather than the current system of up-rating. Initially focus on reviewing the local scheme cases.

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The review of the additional work, and assessment of all errors detected meant that I was unable to certify the claim by the 30 November 2011 deadline. I am currently concluding my work but am likely to be unable to conclude that an amended claim based on the extrapolated findings would be fairly stated because of the nature and frequency of the errors found, and the volume of cases in the cells subject to review. I will therefore report these matters in a qualification letter accompanying the certified grant claim to the Department for Work and Pensions. I expect to do this by then end of February 2012, which is earlier than in the previous year.

### **Pooling of housing capital receipts**

The Council addressed the issue included in our 2009/10 qualification letter as it no longer includes a proportion of general overheads as a claim deduction. This is a welcome improvement.

However, the Council had to amend the amount of administrative costs deducted before I could certify the return. The Council has not updated the percentage of staff time involved in Right to Buy disposals to reflect arrangements in 2010/11. Officers should update this annually.

The pooling of housing capital receipts allows certain capital receipts normally subject to the pooling arrangements to be offset by capital allowances. However, this offset requires the Council to keep a 'robust record' of the Council's capital allowances. My view is that the Council should improve its capital allowance records. I determined not to qualify the return because the level of the capital allowance pool would need to be significantly overstated to affect the offset applied in 2010/11. I considered the risk of this to be remote. However, this does not detract from the need to strengthen the underlying documentation supporting the capital allowance pool for future offset. When officers were considering my concerns they detected they had overstated the pool by £793,000 – this supports the need for a review and refinement of the Council's supporting documentation.

### **Recommendations**

**R4** Update the percentage of staff time spent on Right to Buy disposals annually before preparing the pooling of housing capital receipts claim

**R5** Review and improve the records supporting the Council's capital allowances pool used in the pooling of housing capital receipts claim.

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### **Housing finance base data return**

We raised four matters in our qualification letter. Two matters were repeats of issues previously qualified:

- the calculation method for the average weekly rent per dwelling; and
- a lack of supporting evidence for leased properties at Lowes Yard.

I have previously made recommendations on these points and officers have decided the cost of correcting the issues outweighs the benefits any correction would bring. Given this I have not made more recommendations in this report.

The two additional qualification matters were:

- unresolved issues on certain entries in the movements in the HRA Capital Financing Requirement. Officers gave additional consideration to these issues after certification was complete and I have not therefore raised any recommendations here; and
- the Council was unable to show they had completed the required tenant specific consultation before 10 October 2011 for the dwellings shown as planned for demolition. This part of the return was new for 2010/11.

As well as the qualification issues there were four areas where we agreed revisions to the return. The most significant of these were:

- an error in an underlying spreadsheet meant the total value of housing stock included in the return was initially understated by approximately £28 million. This supports the need to quality assure working papers supporting the claim; and
- the Council has overstated the estimated HRA Capital Financing Requirement by £6.7 million as they had included properties that did not transfer into the HRA from the general fund until 1 April 2011.

The Localism Act 2011 will change the way that councils manage housing finance. It is expected there will be changes to the arrangements currently subject to grant certification with a final housing subsidy claim due to be completed for 2011/12.

## Recommendation

**R6** Quality assure working papers supporting grant claims and returns. Where spreadsheets are used review them to ensure they do not include errors of logic. Routinely carry out analytical review between years for every grant claim as this can detect errors in claim preparation.

### Claims between £125,000 and £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Qualification letter
Disabled facilities	457	Nil	No

# 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>Set up effective arrangements across the Council to manage and quality assure all grant claims before submission for certification.</p> <p>Specifically:</p> <ul style="list-style-type: none"> <li>■ document the review process that officers have applied to claims and returns;</li> <li>■ carry out analytical review for all claims where year-on-year variances could suggest errors which need to be corrected;</li> </ul>	High	30 June 2011	Head of Finance and Chief Accountant	Partially implemented	<p>The Council has referred to previous qualification letters in preparing current year claims and this has resulted in the pooling of housing capital receipts return being submitted in 2010/11 without the need for a qualification letter.</p> <p>Other improvements are more piecemeal and remain an area where the Council should continue to focus. The internal audit function remains under review.</p>

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
<ul style="list-style-type: none"> <li>■ review qualification issues raised on all claims, document what has been done to address these, and provide this evidence as part of the working papers;</li> <li>■ introduce a programme of claims reviews by a fit for purpose internal audit function; and</li> <li>■ improve working papers supporting all claims.</li> </ul>					
<p>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.</p> <p>I made this recommendation in my 2008/09 report, but the level of error detected indicates that further work is required.</p>	High	Ongoing	Revenue and benefits manager	<p>Partially implemented – keeping training up to date needs to remain an area of focus for the Council.</p> <p>Income assessment training should be completed.</p>	<p>The Council completed overpayment training in October 2010.</p> <p>A Quality Assurance Team was set up from April 2011. This should start to show results for 2011/12.</p>

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Review the testing failures in 2009/10. Perform early testing of 2010/11 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.	High	May 2011	Team leader – Benefits	Implemented	Officers completed early testing for 2010/11. This covered income on all headline cells in the claim and the classification of overpayments.
Review and revise the allocation of overheads to right to buy disposals ensuring the certification instruction requirements are met. Discuss the proposed treatment with the audit team before preparing the pooling of housing capital receipts return for 2010/11.	High	30 April 2011	Finance Control Manager	Implemented	
Improve the data capture for disposals to be included in the claim, and fully reconcile the disclosures to the financial statements.	High	30 April 2011	Finance Control Manager	Implemented	Similar errors have not recurred in 2010/11.
Obtain the necessary information for the leased properties at Lowes Yard, Norwich to ensure the next subsidy base data return is correctly prepared.	Low	30 June 2011	Finance Control Manager	Not implemented	Officers have determined that the costs of resolving this qualification letter issue outweigh any benefit to be gained given the housing subsidy system will cease for 2012/13.

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Reconcile all HRA property on the claim to the Council's asset register before presenting the return for audit.	High	30 June 2011	Finance Control Manager	Implemented	No issues detected with land or other HRA properties in 2010/11.
Identify all potential liabilities and agree with NELM and any other successor bodies which party will fund these and when.	High	Dependant on DCLG timetable	Head of Finance and Deputy Chief Executive	Partially implemented	Discussions with DCLG and NELM remain ongoing.

# 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
<p>R1 - Set up effective arrangements across the Council to manage and quality assure all grant claims before submission for certification. Specifically:</p> <ul style="list-style-type: none"><li>■ extend quality control arrangements to incorporate the working papers which support the claim;</li><li>■ document the controls that officers have applied in preparing all claims;</li><li>■ use Internal Audit to review claims and working papers before they are presented for audit;</li><li>■ extend analytical review procedures (current year to prior year and between iterations of the current year claim) to all claims; and</li></ul>	High	Internal control arrangements will be reviewed in conjunction with LGSS, the Council's financial services provider, and where risk assessed as appropriate, changes made to enhance controls.	October 2012	Chief Finance Officer

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
<ul style="list-style-type: none"> <li>■ ensure that, where relevant, working papers supporting the claim are fully reconciled to the Council's financial statements.</li> </ul>				
<p>R2 - Continue staff training on the assessment of benefits and the use of the benefits system. Particular attention should be paid to:</p> <ul style="list-style-type: none"> <li>■ correctly assessing of income;</li> <li>■ correctly classifying overpayments; and</li> <li>■ correctly inputting the date of receipt of evidence.</li> </ul>	High	<p>Ongoing refresher training is delivered to staff on a regular basis. In addition all staff have access to the electronic training folder where guidance/ procedural notes are held.</p> <p>Overpayment training programme completed for all staff in October 2010.</p>	Immediate/ongoing	Revenues & Benefits Manager
<p>R3 - Consider the advantages of using the DWP Electronic Transfer of Data to input war and state pensions into the benefits system rather than the current system of up-rating. Initially focus on reviewing the local scheme cases.</p>	Medium	<p>Electronic Transfer of Data received in December prior to system up-rating will be reviewed. Exercise to be undertaken to review claims where pension income included in assessment.</p>	May 2012	Subsidy & Performance Officer
<p>R4 - Update the percentage of staff time spent on Right to Buy disposals annually before preparing the pooling of housing capital receipts claim.</p>	High	<p>This is done annually, but process will be reviewed to fit in with pooling claim requirements.</p>	April 2012	Service Accountant – Housing



Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R5 - Review and improve the records supporting the Council's capital allowances pool used in the pooling of housing capital receipts claim.	Medium	The working paper for the annual determination of the Council's capital allowance has been updated to address the potential for overstatement.	January 2012	Housing Finance Manager
R6 - Quality assure working papers supporting grant claims and returns. Where spreadsheets are used review them to ensure they do not include errors of logic. Routinely carry out analytical review between years for every grant claim as this can detect errors in claim preparation.	High	Internal control arrangements will be reviewed in conjunction with LGSS, the Council's financial services provider, and where risk assessed as appropriate, changes made to enhance controls.	October 2012	Chief Finance Officer

# 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	59,142*	76,295	The number of errors detected in our initial sample has reduced this year.  Given the high error rate in 2009/10 we changed the skill mix within the team resulting in some efficiency.  The 2009/10 fee includes some time dealing with DWP queries on the 2008/09 claim.
Pooling of housing capital receipts	6,527	6,007	
HRA subsidy	3,576*	3,256	
Housing finance base data return	15,140	12,377	CLG required us to test additional information in advance of the move to the HRA self-financing regime.

Claim or return	2010/11 fee £	2009/10 fee £	Reasons for changes in fee greater than +/- 10 per cent
National non-domestic rates return	13,830	2,199	General grant instructions require parts A and B testing to be completed every three years where reliance is normally placed on the grant control environment. This had to be completed for 2010/11. Part B tests are more extensive and time-consuming. I plan to revert to placing reliance on the control environment once again in 2011/12.
Disabled facilities	772	735	
EEDA Single Programme	-	1,325	No claim requiring certification in 2010/11.
New deal for communities	-	20,301	No claim requiring certification in 2010/11.
General grant reporting	2,180*	2,117	
Total	101,167*	124,612	

\* estimated where claims are not yet complete

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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.

