

Certification of claims and returns - annual report

Norwich City 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 auditors that it has met the conditions which attach to these grants. This report summarises the findings from my certification of the Council's 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 Norwich City Council receives significant 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 the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team reviewed eight claims with a total value of £149 million. Of these, we carried out a limited review of one claim and a full review of seven claims. Paragraph 10 explains the difference.

Significant findings

3 The Council has improved its control environment for grant claims during 2009/10. But overall the control environment for claims production remains variable and the Council should make further improvements.

4 We amended five of the seven claims requiring full certification for errors. For four claims, my team was unable to fully certify the claim and issued a qualification letter to the grant-paying body. This re-enforces the need for further improvement in the control environment for grants. Appendix 1 sets out a full summary.

Certification fees

5 I charged fees of £124,612 for completion of all 2009/10 certification work. This compares with £147,551 charged for 2008/09.

Background

6 The Council claims significant amounts of funding for specific activities from grant paying departments. This forms a significant part of the Council's income and it is important that it manages this properly. In particular this means:

- a satisfactory control environment over each claim and return; and
- ensuring the Council can evidence that it has met the conditions attached to each claim.

7 I am required by section 28 of the Audit Commission Act 1998 to certify certain claims and returns for grants or subsidies paid by the government departments and public bodies to Norwich City 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.

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

9 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 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 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 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 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.

10 The Localism Bill will change the way that councils manage housing finance and it is expected there will be changes to the arrangements currently subject to grant certification. These changes are not expected to come into effect for 2010/11.

Findings

Control environment

11 The Council has improved its control environment for grant claims. In particular I found improved controls for the HRA subsidy claim which now has an adequate internal control environment for the first time.

12 However, overall the control environment for claims production remains variable and should be further improved if the decrease in audit fees is to be maintained. Of four claims subject to full certification instruction testing, all were amended and all were also subject to qualification letters, re-enforcing the need for improvement in the control environment for grants.

13 The Council should make improvements as follows.

- Consistently document the review process that officers have carried out on claims, as improvements here have been patchy. It is often difficult to ascertain the extent of any review.
- Carry out analytical review for all claims where year-on-year variances could suggest errors which need to be corrected - this was only carried out on some claims in 2009/10.
- Specifically review qualification issues raised on all claims, document what officers have done to address these in the current year, and provide this evidence as part of the working papers supporting the claim.
- Introduce a programme of claims reviews by a fit for purpose internal audit function. There has been no internal audit review of claims in recent years.
- Make further improvements to supporting working paper files. This should include consistent referencing, noting who has prepared and reviewed the supporting papers, summarising the controls in place to support the claim and underlying data, and providing clear reconciliations to financial statements figures where appropriate.

14 I do not carry out an assessment of the control environment for the housing and council tax benefit claim as the HB COUNTⁱ certification approach is applied to this claim. This integrates the work required for the certification with value for money conclusion and audit opinion work.

ⁱ Count Once Use Numerous Times

Recommendation

R1 Set up effective arrangements across the Council to manage and quality assure all grant claims before submission for certification.

Specifically:

- document the review process that officers have applied to claims and returns;
 - carry out analytical review for all claims where year-on-year variances could suggest errors which need to be corrected;
 - 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;
 - introduce a programme of claims reviews by a fit for purpose internal audit function; and
 - improve working papers supporting all claims.
-

Specific claims

Housing benefit and council tax benefit subsidy claim (HB Claim) - value presented for audit £70,465,735

15 Following the large number of amendments and qualification issues arising from our review of the 2008/09 claim the Council carried out early 'additional' testing of the cells most likely to be affected by ongoing issues in 2009/10. I welcome this development which has helped to secure fee reductions for the Council. The Council's early testing detected a number of errors in the sample tested, and this has been reinforced by the results of my team's testing of the 2009/10 housing benefits claim.

16 The housing benefits claim is produced from the supporting housing benefits system and includes a large number of transactions. The errors found included both system-derived errors and manual errors.

17 The level of error detected meant that I was unable to submit the certified claim by the 30 November 2010 deadline, with the claim being certified on 3 March 2011. This was earlier than in the previous year.

18 Comments based on my findings to date are set out in Appendix 2. The errors indicate that further staff training would be beneficial.

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. I made this recommendation in my 2008/09 report, but the level of error detected indicates that further work is required.
- R3** 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.
-

Pooling of housing capital receipts - value presented for audit £3,527,394

19 I am pleased to report the Council had resolved an issue previously included as part of our 2008/09 qualification letter in terms of the supporting audit trail for improvements to properties disposed of in the year. However, I included the following issue in a qualification letter sent with the audited return:

- the Council had not kept sufficiently detailed records to enable it to allocate overhead costs to specific right-to-buy disposals. I also concluded the Council's method incorrectly resulted in the inclusion of an element of general overheads which is not allowed under the certification instructions.
- 20** We had reported this issue in previous years. In July 2010 the Department for Communities and Local Government (CLG) wrote to the Council. Their letter set out their expectation that for 2010/11 and subsequent financial years, they expect the Council to 'fully satisfy its auditor that all the administrative costs so deducted will satisfy the criterion'. It is important the Council revises its approach to including administrative costs to meet CLG's expectations.
- 21** As well as the qualification issue discussed above, my team also agreed a change to the return as follows.
- A decrease of £62,390 in the amounts disclosed as received from disposals of other interests in housing land (that is excluding right-to-buys). This did not impact on the amount due for pooling as an equivalent adjustment was made to the capital allowance offset. This adjustment reinforces the need to provide clear reconciliations to financial statements figures where appropriate.
- 22** While I am pleased to note there were fewer changes to the return than in the previous year, the amendment was similar to an issue in the 2008/09 claim. I included a recommendation on this in my 2008/09 report.

Recommendations

- R4** 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.
- R5** Improve the data capture for disposals to be included in the claim, and fully reconcile the disclosures to the financial statements.
-

Housing Revenue Account (HRA) subsidy base data return

23 We raised two matters in our qualification letter, which is an improvement on the four matters reported in 2008/09. The matters reported were:

- the calculation of the average weekly rent per dwelling had not been adjusted for the number of days in the year that properties were in the HRA before being sold. Therefore the Council was not fully meeting the certification requirements. However, the Council had carried out some sensitivity analysis from which they had concluded the impact would be negligible; and
- the Council was still unable to provide appropriate supporting evidence for an entry (£13,095) relating to leased properties at Lowes Yard, Norwich. We have reported this issue for several years.

24 Our work only detected one minor change necessary to the return in 2009/10. However the Council subsequently asked that a revised claim be certified as non-dwelling property, which had started to begin to be accounted for in the HRA, had not been included. The adjustment was £825,000.

Recommendations

- R6** Obtain the necessary information for the leased properties at Lowes Yard, Norwich to ensure the next subsidy base data return is correctly prepared.
- R7** Reconcile all HRA property on the claim to the Council's asset register before presenting the return for audit.
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**New Deal for Communities (NDC) - value presented for audit £254,890
(2009/10 spend; grant is a ten year £35 million claim)**

25 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.

26 2009/10 is the final claim for this ten year funding agreement. We have previously reported concerns on the arrangements underlying the grant claim. There has been limited opportunity to make improvements to the arrangements this year following certification of the 2008/09 claim in February 2010.

27 The errors and issues detected meant that I was unable to submit the certified claim by the 31 December 2010 deadline. I completed my work on 17 March 2011.

28 A number of matters were included in our qualification letter. Details on this are included at appendix 2.

29 In addition to the matters to be included in our qualification letter we agreed amendments to the claim presented for certification that increased the amount owed by the Council to CLG by just over £18,000.

30 As this is the final year of the grant we have not raised any recommendations on specific improvements. However, the Council still needs to agree a final settlement with CLG and will therefore need to work towards dealing with the matters of most concern to CLG. Paragraph 28 of Programme Note 44 explains that 'certain functions are required after the completion of year 10, such as the closure of accounts and the submission of the SGU'. It is very important to account for activity and spend accurately because there is no additional NDC grant from CLG in year 11 to meet such costs.

31 The Council, the Trust and other potential successor organisations must ensure that they have identified and estimated the cost of all future liabilities. They should have clear documentation of planned payments, including those to third parties, in transition and succession plans. Failure to make appropriate arrangements for the payment of these costs may expose the Council to future liabilities.

Recommendation

R8 Identify all potential liabilities and agree with NELM and any other successor bodies which party will fund these and when.

Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns above £500,000**

Claim	Value of claim presented for certification £	Adequate control environment	Amended	Qualification letter
Housing benefit and council tax benefit subsidy	70,465,735	Not assessed under the HB COUNT approach	Yes	Yes
Pooling of housing capital receipts	3,527,394	No	Yes	Yes
HRA subsidy	-4,953,692	Yes	Yes	No
HRA subsidy base data return	n/a	No	Yes	Yes
National non-domestic rates return	69,749,392	Yes	No	No
New Deal for Communities	254,890 ⁱⁱ	No	Yes	Yes
EEDA Single Programme - St Anne's Wharf	0 ⁱⁱⁱ	Yes	No	No

ⁱⁱ Below £500,000 in 2009/10, but as a cumulative 10 year claim it is subject to the full certification regime.

ⁱⁱⁱ Nil claim in 2009/10, but as a cumulative claim has been subject to the limited certification regime to ensure the correct funding percentage has been met.

Table 2: **Claims between £125,000 and £500,000**

Claim	Value of claim presented for certification £	Amended
Disabled facilities	300,000	No

Appendix 2 Findings from specific claims

Housing benefit and council tax benefit subsidy claim (HB Claim)

Testing of individual cells

1 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.

2 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 extra sample of 40 cases has to be tested for each type of benefit payment.

3 Our risk based assessment based on 2008/09 and initial test failures arising in 2009/10 resulted in extensive further testing covering additional samples of 40 cases as follows:

Table 3: **Cells where an additional 40 cases were selected for testing**

Cell	Description
11	Non-HRA rent rebate benefit expenditure (early testing by the Council to pre-empt likely errors from our initial sample). No errors were detected.
55	HRA rent rebates (due to income assessment errors found when testing modified scheme cases).
64	HRA rent rebate benefit Local Authority (LA) error overpayments (early testing by the Council to pre-empt likely errors from our initial sample).
66	Rent rebate benefit eligible overpayments (early testing by the Council to pre-empt likely errors from our initial sample).
94	Rent allowances (due to income assessment errors found when testing modified scheme cases).
98	Total expenditure on that part of weekly eligible rent at or below the rent officer's determination on a claim (due to incorrect rent being applied).
108	Rent Allowance - LA Overpayments (early testing by the Council to pre-empt likely errors from our initial sample).

Cell	Description
109	Rent allowance benefit eligible overpayments (early testing by the Council to pre-empt likely errors from our initial sample).
142	Council Tax Benefit (early testing by the Council to pre-empt likely errors from our initial sample).
148	Council tax benefit eligible overpayments (early testing by the Council to pre-empt likely errors from our initial sample).
154	Council Tax - Eligible Overpayments (prior year) (early testing by the Council to pre-empt likely errors from our initial sample).
214/231a	Expenditure due to voluntary disregarding of War Disablement Pensions or War Widows Pensions (due to change in income not feeding through to subsidy calculation).

4 This additional testing was carried out by the Council and identified further case failures unless indicated in the table above. We reviewed the results on a sample basis. I was unable to conclude that an amended claim based on the extrapolated findings would be fairly stated due to both the nature and frequency of these errors, and the volume of cases in the cells subject to review. I reported these matters in a qualification letter accompanying the certified grant claim to the Department for Work and Pensions on 3 March 2011.

5 In addition to the matters included in table 1 above, we also detected four errors where we were able to agree revisions to the claim, the most significant being:

- Officers incorrectly included benefits payments for the first week of 2010/11 in the claim for 2009/10. We agreed to amend the claim by reducing HRA rent rebate by £561,000 and non-HRA rent rebate by £39,000.

6 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.

New Deal for Communities (NDC)

7 Key matters arising from this year's audit included in our qualification letter are as follows;

- The limit for Management and administrative (M&A) is set at ten per cent of grant offered, but this has been overspent by an estimated £113,220 (estimated by the Council).
- Gaps in documentation indicating failure to comply with the requirements to obtain proper approval for projects. This resulted in the inclusion of potentially ineligible payments of £231,186 (primarily funded from NDC generated income).
- Insufficient audit trails to support the basis of management recharges.
- The failure of the Council, as Accountable Body, to:
 - make appropriate checks that the partnership's financial management arrangements for commissioned spend are followed; and
 - properly maintain an inventory of fixed assets financed by NDC projects.
- The cumulative amount of unspent NDC generated income and capital receipts due back to CLG may be overstated due to errors in the way payments from these amounts have been recorded over the course of the grant scheme.
- The Trust awarded contracts during 2009/10 without fully complying with their standing orders.
- 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 remains 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.

Appendix 3 Action plan

Recommendations

Recommendation 1

Set up effective arrangements across the Council to manage and quality assure all grant claims before submission for certification. Specifically:

- document the review process that officers have applied to claims and returns;
- carry out analytical review for all claims where year-on-year variances could suggest errors which need to be corrected;
- 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;
- introduce a programme of claims reviews by a fit for purpose internal audit function; and
- improve working papers supporting all claims.

Responsibility	Head of Finance and Chief Accountant
Priority	High
Date	30 June 2011
Comments	Internal Audit function currently being reviewed. A workshop for all relevant staff is to be arranged to address the overall claims issues arising from this report.

Recommendation 2

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. I made this recommendation in my 2008/09 report, but the level of error detected indicates that further work is required.

Responsibility	Revenue and Benefits Manager
Priority	High – Overpayment training completed October 2010
Date	Ongoing
Comments	As a result of previously identified errors and recommendations, comprehensive overpayment training has been developed and delivered to all assessment staff during September/October 2010. The results of this should be evident in the 2010/11

audit. In addition, a Quality Assurance Team is being set up from April 2011. This team will be working closely with Training and Development to address any areas of concern.

Recommendation 3

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.

Responsibility	Team Leader Benefits
Priority	High
Date	May 2011
Comments	<p>Although there were testing failures in 2009/10, some of these were revisited on two or more occasions due to a lack of consistency within the audit team. This was an area of concern during the 2008/09 audit and early planning of resources for 2010/11 audit would prove beneficial.</p> <p>It has been noted that early testing will be required for 2010/11 and resources will be allocated. It would also prove beneficial if the required workbooks are provided to the Authority at an early date. A meeting to discuss timetables/plan for 2010/11 audit has been suggested by the Authority to take place early April 2011.</p>

Recommendation 4

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.

Responsibility	Finance Control Manager
Priority	High
Date	30 April 2011
Comments	Treatment of overhead allocation for 2010/11 is being revised to meet CLG Certification Directions, in accordance with CLG correspondence.

Recommendation 5

Improve the data capture for disposals to be included in the claim, and fully reconcile the disclosures to the financial statements.

Responsibility	Finance Control Manager
Priority	High

Date	30 April 2011
Comments	Agreed.
Recommendation 6	
Obtain the necessary information for the leased properties at Lowes Yard, Norwich to ensure the next subsidy base data return is correctly prepared.	
Responsibility	Finance Control Manager
Priority	Low
Date	30 June 2011
Comments	Information so far obtained is inadequate and detailed records may have been misplaced a number of years ago. Further enquiries are being made, but with little result to date. Value claimed is low, and Housing Subsidy system and claims will end with effect from 31 March 2012.
Recommendation 7	
Reconcile all HRA property on the claim to the Council's asset register before presenting the return for audit.	
Responsibility	Finance Control Manager
Priority	High
Date	30 June 2011
Comments	Data will be fully reconciled before final Housing Subsidy Base Data Return completed as part of HRA Self-Financing arrangements.
Recommendation 8	
Identify all potential liabilities and agree with NELM and any other successor bodies which party will fund these and when.	
Responsibility	Head of Finance and Deputy Chief Executive
Priority	High
Date	Dependant on DCLG timetable.
Comments	In direct discussions with DCLG to finalise closedown of the NDC claim.

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