



Cannock Chase District Council

Certification work report 2011/12

February 2013

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1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 A total of 4 claims and returns have been certified for the financial year 2011/12 with a total value of £60.4 million. It should be noted that the Pooling of Capital receipts, HRA Subsidy and National Non Domestic Rates claims detailed in this certification report were completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditor's work as well as our own.
- 1.3 Drawing upon these this report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

- 1.6 It should be noted that some of the work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditors work as well as our own.
- 1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	<p>Overall the Council is performing well, however there are specific issues regarding your Housing and Council Tax Benefit Claim. In November 2012 your audited claim was submitted with amendments totalling £19,500 and it was accompanied by a qualification letter. Following this we also undertook further work, at the request of DWP and the Council, in December 2012 which resulted in an additional qualification letter. As a result, the Council and DWP have been in further discussions. You have reached agreement with DWP in respect of possible adjustments to your subsidy. No further audit work is required upon the 2011/12 subsidy claim and any residual matters will be addressed as part of the 2012/13 audit.</p> <p>Whilst the complexity of the Benefits scheme and the volume of transactions involved mean it is not uncommon for amendments to be made and a qualification letter to be issued there are areas where the Council could strengthen its arrangements.</p>
Supporting working papers	Supporting working papers for the claims and returns were good, which enabled certification within the deadlines. However, additional work was required due to errors identified in the preparation of your Housing and Council Tax Benefit Claim and the supporting working papers. Ensuring that the preparation of this complex claim becomes embedded/integrated within the benefits team should help the Council's quality assurance arrangements and improve the audit process.

The way forward

- 1.8 We have made a recommendation to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendation will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

- 1.10 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

January 2013

2 Results of our certification work

Key messages

- 2.1 A total of 4 claims and returns have been certified for the financial year 2011/12 with a total value of £60.4 million. It should be noted that the Pooling of Capital receipts, HRA Subsidy and National Non Domestic Rates claims detailed in this certification report were completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditor's work as well as our own.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		4		6		↓
Number of claims submitted on time	100%	4	100	6	100	→
Number of claims certified on time	100%	4	100	6	100	→
Number of claims certified with amendment	50%	2	50	3	50	→
Number of claims certified with qualification	50%	2	50	2	33	↓

- 2.3 This analysis of performance shows that:
- The total number of claims requiring certification has fallen in 2011/12 as audit certification of the Council's Disabled Facilities Grant and HRA subsidy base data return are no longer required.
 - The HRA subsidy claim required amendment due to the impact of HRA self-financing.
 - As a result of the reduced number of claims there has been an associated increase in the percentage of claims subject to amendment and qualification. This should not be taken as an indicator of a worsening of your overall performance in 2011/12 as

the Housing and Council Tax Benefit claim is always at risk of being qualified due to its complex nature.

- You continue to be in dispute with DCLG in respect of the Pooling of housing capital receipts and we are required to report the required amendments and produce a qualification letter.

- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 We have charged a total fee of £9,029 for completing the certification of claims and returns in 2011-12. In addition your previous auditors, the Audit Commission, charged a total fee of £27,6843.50. The overall charge for 2011-12 is therefore £36,863 which compares to the total indicative budget of £32,000. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

- 2.6 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

Pooling of Housing Capital receipts and HRA Subsidy

- 2.7 The Council has an on-going dispute with DCLG with regard to the treatment of capital receipts from the sale of council houses. On this basis, until the dispute is resolved, I am required to qualify this return, indicating that it is not in line with DCLG Guidance and the Audit Commission's Certification Instructions to auditors.
- 2.8 Your HRA subsidy claim required amendment prior to certification. The largest amendment was due to the incorrect inclusion of the £59.245m borrowed for HRA self-financing. The DCLG Guidance and the Audit Commission's Certification Instructions to auditors specifically stated that this should be excluded. The impact of the amendments was to reduce the balance owed to DCLG by £41,000.

Certification of the Housing and Council Tax Benefit claim

- 2.9 The Housing and Council tax benefit claim is the means by which the Department of Work and Pensions (DWP) reimburse the Council for the payment of housing and council tax benefits to claimants. The rules and regulations regarding payment to claimants are complex and the rules for claiming subsidy (the name given to the reimbursement) from DWP are equally as complex.
- 2.10 The national deadline for the submission of audited claims was 30 November 2012. This was met but your Housing and Council Tax Benefit claim required amendment and a qualification letter to be submitted. We also undertook additional work in December 2012, at the request of DWP and the Council, following the initial certification resulting in an additional qualification letter. As a result, the Council and DWP have been in further discussions. You have reached agreement with DWP in respect of possible adjustments to your subsidy. No further audit work is required upon the 2011/12 subsidy claim and any residual matters will be addressed as part of the 2012/13 audit.
- 2.11 The complexity of the Benefits scheme and the volume of transactions involved means it is not uncommon for amendments to be made and a qualification letter issued on this type of claim. However, there are a number of areas where the Council can strengthen its arrangements help it improve the accuracy of processing and also to reduce the number of errors in claim compilation and hence the amount of audit work and additional costs:

- There were basic errors in the preparation of the claim i.e. a software update was not run leading to a revision of the claim being required and requiring audit samples to be reselected.
- The claim and supporting audit trails included unusual figures, that are highly unlikely to occur. A process for reviewing the claim and identifying those that would have warranted further investigation and amendment prior to submission for audit would have improved the accuracy of the claim and reduced the level of required audit work.
- Incorporating reviews for errors identified in previous years, to identify whether they have been addressed and provide explanations where any have continued, would reduce required audit input.
- The CIVICA system the Council uses to administer benefits and produce the subsidy claim is particularly complex to use. In the Council's view a number of errors were caused by the 'system' but these had not been identified prior to audit.
- Whilst key staff have excellent knowledge of benefits assessment they have not had experience of compiling the claim. The linkages between assessment errors or inclusion of items in incorrect cells on the claim form and the subsidy receivable by the Council is not transparent. Ensuring that the preparation of this complex claim becomes embedded/integrated within the benefits team should help the Council's quality assurance arrangements and improve the audit process.
- The Council's quality assurance arrangements for 'high risk' (from a subsidy perspective) claims can be strengthened. By focussing regular checks on known high risk areas such as modified schemes, people in receipt of Statutory Sick Pay, self-employed earnings etc it is possible that errors identified at audit and therefore triggering additional testing could be reduced.

Detailed recommendations are contained in appendix C.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value (£000)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	35,260	Yes	19,500	Yes	19,530	28,448	Additional audit work required due to errors in the production of the claim. Twelve additional test samples were required with associated additional testing and additional audit inputs., alongside additional work in December 2012 in respect of SSP and self-employed earnings issues noted above.
National non-domestic rates return	29,086	No	0	No	1,372	2,785	Significant increase in fee due to the additional work required to undertake more detailed testing every third year as per the CI.
HRA Subsidy	-4,865	Yes	41,000	No	3,027	3,570	The amendment in respect of the exclusion of £59.245m borrowed for HRA self-financing required additional work to be performed.
HRA subsidy base data return	Not required	No	0	No	4,515	0	No requirements for this claim to be certified in 2011/12.

Claim or return	Value (£000)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Pooling of housing capital receipts	1,009	No	0	Yes	3,084	2,060	Significant decrease in fee due to reduced work from strong control environment. The issue resulting in a qualification letter is of an ongoing nature.
Disabled Facilities Grant	Not required	No	0	No	929	0	No requirements for this claim to be certified in 2011/12.
Certification Report					0	0	Cost of producing the report is apportioned across the grant claims certified.
Total	60,490	-			32,457	36,863	

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing and Council Tax Benefits	Have preparation of the claim embedded or integrated within the benefits team.	M	The new structure of the Shared Revenues and Benefits Service provides for exactly this change. The Benefit Services manager will be responsible for both the accuracy of Benefit claims processed and the re-claim of subsidy in respect of those claims.
Housing and Council Tax Benefits	Recognise modified schemes as a high risk area for the subsidy claim (not claimant) purposes and strengthen internal review arrangements of these complex cases.	M	A better methodology for identifying ALL high risk cases has been developed. In future there will be less reliance on manual selection of cases for sample checking and more reliance on a risk-based computerised selection. All new claims and adjusted payments, that included modified scheme claims will be checked.
Housing and Council Tax Benefits	Undertake detailed review of the subsidy claim prior to submission to ensure that any unusual variations in cells are investigated and validated.	M	A checklist of checks and balances will be developed and discussed with our Auditors. This will greatly reduce the risk of any unusual transactions not being identified.

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing and Council Tax Benefits	Establish regular quality checks to highlight potential errors are identified and resolved prior to submission of the claim, such as SSP claimants, self employed earnings, same day amendments.	H	See above - A better methodology for identifying ALL high risk cases has been developed. In future there will be less reliance on manual selection of cases for sample checking and more reliance on a risk-based computerised selection. All claims based on an income which is paid over a maximum period of time (such as SSP) will be monitored and reviewed in a timely manner.

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