

# **Certification of claims and returns - Annual Report**

**Sunderland City Council**

Audit 2008/09

**May 2010**



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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 of these grants.**

**This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from my assessment of the Council's arrangements for preparing claims and returns and information on claims that have been amended or qualified.**

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## Certification of claims

- 1 Sunderland City Council receives more than £516m 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, my audit team certified eight claims with a total value of £249 million. Of these, we carried out a limited review of one claim and a full review of seven claims (Paragraph 14 explains the difference). We amended seven claims for errors and for two claims we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Overall, one grant claim was reduced by £35,574 (0.0001% of the total value of claims certified). Appendix 1 sets out a full summary.
  - 3 The fees charged for grant certification work for 2008/09 claims were £52,210.
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## Significant findings

- 4 We found significant issues relating to the £9.2m New Deal for Communities (NDC) claim, although this did not result in any NDC grant funding being lost to the Council.
  - 5 During the audit a total of £1.2m of expenditure was identified as ineligible for inclusion in the NDC statement. However, the Council had obtained approval from Government Office North East (GONE) to use up to £2.5m of Area Based Grant expenditure to maximise the NDC claim. This arrangement between the Council and GONE has been in place for the last few years to enable the Council to secure maximum grant for Back on the Map and to prevent loss of grant due to the 'defrayment rules'. Therefore, the Council used this flexibility to cover the £1.2m shortfall. To date, there has been no grant loss as a result of these arrangements.
  - 6 This agreement is dependant on the Council providing equivalent funding to Back on the Map (BotM) when suitable projects are approved and delivered. The result of the issues identified on this year's claim is that £3.9m is included in the accounts at 31 March 2009 held by the Council for use on BotM projects. Officers have stated that there are plans in place to fully utilise these funds.
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- 7 The NDC grant was the only claim that was not certified by the original deadline (31 December 2009). Verification visits to projects were not all completed until after the draft claim was submitted (30 September 2009). The Council could not provide sufficient evidence to support the claim by the deadline and was granted an extension to 31 January 2010. The Council is in the process of bringing forward its timetable of verification visits.
- 8 The £1m Disabled Facilities Grant claim (DFG) did not require any amendments. There were matters arising on the other six amended claims (total value £239m) but these were relatively minor in nature.

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### Actions

- 9 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

# Background

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- 10 The Council claimed more than £516m in 2008/09, £249m of which is subject to external audit and £13m to internal audit, for specific activities 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.
- 11 We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by government departments and public bodies to Sunderland 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.
- 12 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 13 The key features of the current grant arrangements are as follows.
  - For claims and returns below £100,000 the Commission does not make any certification arrangements. Where required, a grant certificate would be provided by the head of internal audit.
  - 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 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 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 high value claims.
- 14 The work that we undertake to certify the Housing Benefits claim for the Department for Work and Pensions (DWP) is slightly different. Because of the high value and high

risk nature of the claim, the auditor is required to test the entries on a Council's claim form, and is precluded from relying upon the control environment. In doing this we:

- confirm that the subsidy claim has been completed using the recognised software for claim completion;
- undertake an analytical review for a year by year comparison and comparisons to other Councils; and
- carry out detailed testing of individual claims for benefit to ensure the Council is calculating benefit entitlement correctly and reporting accurate performance information to the DWP.

# Findings

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## Control environment

- 15 When assessing the control environment we assess our knowledge of:
- arrangements to ensure claims and returns are completed accurately;
  - control arrangements including internal financial control and internal audit;
  - quality of supporting working papers;
  - expertise and knowledge of preparers, including the adequacy of supervision and review;
  - cumulative knowledge of problems associated with the claim; and
  - analytical review.
- 16 The Council has a grants co-ordinator who monitors the submission of grant claims. Grant claim files have a standard index with referenced working papers, which are quality reviewed by the grants co-ordinator to ensure that appropriate working papers are presented to us.
- 17 We have a sound knowledge of financial systems in place within the Council, and we are of the opinion that there are no material weaknesses in control.
- 18 We have good relationships with the grants co-ordinator and officers preparing claims, which help us in meeting certification deadlines. Preparers of claims are experienced and have a good knowledge of grant schemes.
- 19 Of the eight 2008/09 claims that we certified, we placed reliance upon the control environment in one instance, which was due to:
- not having identified any issues in recent years when carrying out detailed testing;
  - the relatively straightforward nature of the scheme; and
  - the relatively few in-year transactions.
- 20 We have a different approach to the Housing and Council Tax Benefit claim, as set out in paragraph 14 above, and we are precluded from placing reliance on the control environment for this grant.
- 21 For the remaining six claims we chose not to place reliance on the control environment for 2008/09. The main reason for this is that despite controls being in place, in recent years we have identified a number of issues on claims which have led to various amendments and reporting issues. These vary from being minor in nature to some where they have been significant. Similar findings were also reflected in our 2008/09 work. However, to put these findings into context the net loss of grant to the Council in relation to 2008/09 grant claims and returns was £14,717 (see paragraph 2).



<b>Recommendation</b>
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<b>R1</b> The Council should review its quality control processes to provide further assurance on the accuracy of grant claims.
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### Specific claims

#### New Deal for Communities

22 The deadline for the certification of the NDC grant was 31 December 2009. Although the Council submitted its draft claim on time (by 30 September 2009), verification visits to projects were not all completed until after the draft claim was submitted. The Council could not provide sufficient evidence to support the claim by the deadline and was granted an extension to 31 January 2010. The Council is in the process of bringing forward its timetable of verification visits.

<b>Recommendation</b>
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<b>R2</b> Officers should ensure that the verification timetable will facilitate timely completion of the NDC grant and provide assurance that the draft claim is accurate.
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- 23 The NDC grant allocation for 2007/2008 was overspent by £793,454. This excess expenditure was carried forward into 2008/2009. However, as the grant requirements expect all expenditure to be defrayed in-year this was deemed as ineligible expenditure for the purposes of the grant certificate for 2008/2009. When this issue was highlighted in the 2008/2009 claim the Council notified the Audit Commission of a separate project whose expenditure (£180,472) in 2007/2008 had been omitted from the 2007/2008 Statement pending a response from Government Office for the North East (GONE) regarding eligibility and compliance with funding rules. The expenditure was then included in the 2008/2009 Statement following a positive response from GONE but due to the timing of the expenditure did not meet the in-year defrayment rule for 2008/2009. There has been no loss of NDC grant due to this 'spend swap' arrangement agreed between the Council and GONE.
- 24 Following the Council's project verification visits, further adjustments for ineligible expenditure to the value of £164,450 were identified.
- 25 An adjustment of £16,358 was needed to the amount claimed for management and administration (M&A) costs. The adjustment related to two separate items of expenditure which were not eligible under the M&A heading. One item related to a separate NDC-funded project, the other was a VAT adjustment. VAT is an ongoing issue for BoTM (see paragraph 28).
- 26 In total £1,154,734 (£1.2m) of expenditure was identified as ineligible for inclusion in the NDC statement. However, the Council had obtained approval from Government Office North East (GONE) to use up to £2.5m of Area Based Grant Council expenditure to maximise the NDC claim. This arrangement between the Council and GONE has been in place for the last few years to enable the Council to secure maximum grant for Back on the Map and to prevent loss of grant due to the 'defrayment rules'. Therefore, the Council used this flexibility to cover the £1.2m

## Findings

shortfall. There has been no loss of NDC grant due to this 'spend swap' arrangement agreed between the Council and GONE.

- 27 This agreement is dependant on the Council providing equivalent funding to Back on the Map (BotM) when suitable projects are approved and delivered. The result of the issues identified on this year's claim is that £3.9m is included in the accounts at 31 March 2009 held by the Council for use on BotM projects. Officers have stated that there are plans in place to fully utilise these funds.
- 28 There were other issues that we reported in our qualification letter:
- there were no approval dates on supporting schedules for 4 out of 60 projects. Detailed testing highlighted a lack of approval for a further 4 cases;

### Recommendation

**R3** The Council should ensure that there are approvals held for all NDC projects.

- asset registers were incomplete: there is a lack of serial numbers, locations and amount of grant used in funding in respect of the NDC grant claim;

### Recommendation

**R4** The Council should ensure that BotM NDC asset records are complete.

- there was £23,615 of expenditure where the need for tendering was not identified prior to contracting. On this occasion the supplier selected was one which had been shown to offer the best value for money on a previous similar contract. Procurement processes had been improved since the audit of the 2007/08 claim, and this appeared to be an isolated occurrence; and
  - one project had not declared income generated from nominal session fees. The organisation concerned had not been made aware of the need to account for this income separately to that of their other session income. Anecdotal explanations of probable uses included the provision of packed lunches for children on away days and similar subsidies. Given the small scale of the possible income, the Accountable Body decided that any further action would not be merited. Advice has been given that any future income derived from grant funded projects must be separately recorded.
- 29 We also reported that BotM had recently been VAT registered and that this applies retrospectively to claims from 2005/06. Claims to date have been based on the fact that BotM was not registered for VAT and VAT paid was claimed back in the form of grant funding. The impact of this has yet to be quantified, but consideration will need to be given to the correct course of action if VAT is subsequently recovered that has previously been grant funded.

## Urban II Community Initiative Programme

- 30 One issue was raised in our qualification letter. The grant percentage rate had been exceeded, due to the sterling revaluation of the programme intervention rates. It is

understood that GONE has not yet notified the Council as to whether it wishes to subsequently adjust the amount claimed.

- 31 Adjustments to the draft claim of £35,574 were made as a result of identifying ineligible expenditure when following up our previous year's work. However, £20,857 was recovered by the Council from a third party and as such this resulted in a net loss of grant funding of £14,717.
- 32 There were also minor differences between amounts claimed and relevant project approvals. New approvals were obtained for 3 projects and these issues were resolved.

### Housing and Council Tax Benefit Subsidy

- 33 The Council submitted its initial £120m Housing and Council Tax Benefit claim to the DWP. Following further detailed work by officers a revised claim based on more accurate information was submitted to us, which included amendments to the initial claim of £42,968. Our detailed testing did not highlight any errors on the revised claim.

### Early Years, Surestart and Childcare Grant (EYSSCG)

- 34 The Council submitted its EYSSCG claim on time. A second claim was later submitted to us with working papers, which had been reduced by £13,799 as quality assurance processes had identified expenditure which was ineligible.
- 35 Our initial testing on the revised claim highlighted a small prepayment and an error of £1,800 relating to recoverable VAT being included in the claim. Additional testing highlighted a further prepayment of £1,600. Adjustments were made to the claim to reflect the percentage error rate in our testing. However, due to there being an excess of expenditure over that claimed, the Council did not lose any entitlement to grant.

### National Non-Domestic Rates (NNDR) return

- 36 Our review of the NNDR return highlighted that the bad debt provision appeared low, given the current economic climate. The provision was reviewed by officers in light of emerging information on the deteriorating financial position of some local businesses. The return was amended to reflect a revised provision which was increased from £77,906 to £635,651. There was no financial impact on the Council. This issue has already been reported to Members in our 2008/09 Annual Governance Report.

### Teachers' Pension return

- 37 Sample testing on the Teachers' Pension return highlighted a minor issue on the calculation of contributions rates, which was in respect of adjustments before December 2006 (the date a new payroll system was introduced). The total error of £361 has been corrected.

### Single Programme

- 38 The certification of the Single Programme claim highlighted that the claim had not been completed correctly. However, the instructions on completing the form were confusing. Appropriate adjustments were made and there was no impact on grant funding.

## Findings

### Disabled Facilities Grant

- 39 We placed reliance on the control environment for the DFG. This was based on there being no issues arising from recent years' work, the relatively straightforward nature of the scheme and relatively few transactions in the year. Our limited testing did not highlight any errors.

# Appendix 1 – Summary of 2008/09 certified claims

## Claims and returns above £500,000

Service	Claim	Value £m	Reliance placed on the control environment	Amendments	Qualification letter
Finance	New Deal for Communities	9.20	No	£1,154,734 (No grant funding loss)	Yes
Finance	Urban II Community Initiative Programme	7.03	No	£35,574 reduction to grant claim. (£20,857 was recovered from a third party - net loss £14,717)	Yes
Finance	Housing and Council Tax Benefit	119.77	Not permitted (see para 14)	£42,968 (No financial loss)	No
Childrens' Services	Sure Start, Early Years and Childcare	11.31	No	£18,622 (No grant funding loss)	No
Finance	National Non Domestic Rates return	74.45	No	£557,745 (No financial loss)	No
Finance	Teachers' Pensions Return	18.76	No	£361 (No financial loss)	No
Finance	Single Programme	7.22	No	Amended, but no impact on claim value	No
Health, Housing & Adult Serv.	Disabled Facilities Grant	1.03	Yes	None	No
<b>Totals</b>		<b>£248.77</b>		<b>£1.810,004 Amendments £14,717 net loss</b>	

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Claims and Returns Report 2008/09 - Recommendations</b>						
8	R1 The Council should improve its quality control processes to provide further assurance on the accuracy of grant claims.	2	D Napier, Assistant Chief Accountant - Technical	Yes	A review of the Council's Grants Protocol was already planned, as this review is carried out on a regular basis. A report is to be drafted and considered by EMT with a view to help further improve the quality of all grant claims recognising that actions to make improvement will need to be agreed and are also proportionate to the level of risks involved. This will also help to strengthen the arrangements already in place and will help raise the awareness of the protocol and the need to adhere to it.	October 2010
8	R2 Officers should ensure that the verification timetable will facilitate timely completion of the NDC grant and provide assurance that the draft claim is accurate.	2	S. Stanners, Special Projects Officer	Yes	Timetable for verification work is to be brought forward and processes reviewed.	June 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R3 The Council should ensure that there are approvals held for all NDC projects.	3	P. McQueen, Principal Accountant - Regeneration	Yes	Officers are working with BoTM to ensure that approvals are held for all projects.	September 2010
9	R4 The Council should ensure that BotM NDC asset records are complete.	2	S. Stanners, Special Projects Officer	Yes	Appropriate checks will be undertaken as part of the verification process.	September 2010

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