

Certification of claims and returns - annual report

Sunderland City Council

Audit 2009/10

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Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims and returns. 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 Sunderland City Council receives more than £573.2m 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 2009/10, my audit team certified eight claims with a total value of £255m. Of these, we carried out a limited review of two claims and a full review of six claims, as required by our guidance. We were able to fully certify all of the claims and we did not need to issue any qualification letters to the grant-paying bodies. We amended two claims for minor errors. Overall, the loss of grant funding to the Council was less than £5k. Appendix 1 sets out a full summary.

3 The fees I charged for grant certification work in 2009/10 were £40k.

Significant findings

4 Our main findings were that the grant claims and returns subject to our review were accurate and well supported by working papers.

5 There were some issues arising related to the £6.2m New Deal for Communities (NDC) claim. Testing on the draft claim showed that amendments were needed for 12 of the programme projects. Council verification visits identified various items of expenditure to the value of £160k that were found to be ineligible. However, eligible expenditure on other projects was available to offset these reductions. The Council still claimed its full grant allocation.

6 Other issues were very minor in nature.

Background

7 The Council claims more than £573.2m, £255m of which is subject to external audit and £374k 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.

8 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.

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

10 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 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 the high value claims.

11 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 has to test the entries on a Council's claim form. 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
- 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

Control environment

12 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.

13 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.

14 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.

15 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.

16 Of the seven 2009/10 claims that we certified which were over £500k, 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.

17 We have a different approach to the Housing and Council Tax Benefit claim, as set out in paragraph 12 above, and we cannot place reliance on the control environment.

18 For five of six remaining claims over £500k we did not place reliance on the control environment for 2009/10. 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 have varied from being minor in nature to some where they have been significant. However, our 2009/10 work has highlighted less errors than in previous years and we have not needed to issue any qualification letters.

Specific claims

New Deal for Communities

19 Amendments to the draft claim were needed for 12 of the programme projects. Council verification visits identified various items of expenditure to the value of £160k that were found to be ineligible. However, eligible expenditure on other projects was available to offset these reductions. The Council still claimed its full grant allocation.

20 We found four errors in the schedules to the claim:

- two of the approval figures did not reflect the latest position; and
- two items had been misclassified between revenue and capital expenditure.

21 This outcome was a significant improvement on last year. A further improvement would be for officers to complete verification visits prior to preparation of the draft claim.

Single Programme

22 A reduction of £4k was made to the claim following a late request by the grant-paying body for a reallocation of savings made due to a project being under budget. The Council is to seek recovery of £2k from the other partner involved in the project.

Science Excellence in Partnership (Single Programme)

23 Amendments were made to the claim to reflect:

- incorrect calculations of salary costs; and
- inclusion of eligible audit costs.

24 Overall, there was a reduction in grant entitlement of £0.5k.

Appendix 1 – Summary of 2009/10 certified claims

Claims and returns above de-minimis

Service	Claim	Value £m	* Reliance placed on the control environment	Amendments	Qualification letter
Finance	New Deal for Communities	6.15	No	- £160k (No grant funding loss)	No
Finance	Housing and Council Tax Benefit	136.08	Not permitted (see para 12)	None	No
Finance	National Non Domestic Rates return	76.13	No	None	No
Finance	Teachers' Pensions Return	18.30	No	None	No
Childrens' Services	Sure Start, Early Years and Childcare	14.19	No	None	No
Finance	Single Programme	3.19	No	- £4k (£2k of which is recoverable from a partner)	No
Health, Housing & Adult Serv.	Disabled Facilities Grant	1.01	Yes	None	No
Childrens' Services	Science Excellence Innovation Partnership	0.11	N/A - below £500k	- £0.5k	No

* Additional detailed testing is carried out where reliance is not placed on the control environment

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