

Certification of claims and returns - annual report

Wirral Council

Audit 2009/10

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Summary

The grants claim programme was successfully completed in 2009/10. All claims were submitted and certified on time.

Certification of claims

- 1** 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.
- 2** This report summarises the findings from the certification of 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.
- 3** Wirral Council receives around £185 million 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.
- 4** In 2009/10, my audit team certified nine claims and returns with a total value of £267 million; the value of grant funding was £185 million and the value of returns was £82 million. Of these, we carried out a limited review of three claims and a full review of six claims. We amended four claims requiring full certification for errors. For four claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.
- 5** The fees I charge for grant certification work in 2009/10 will be around £120,000.

Significant findings

- 6** The grants claim programme was successfully completed in 2009/10. All claims were submitted on time, a significant improvement compared to previous years. All claims were also certified on time.
- 7** The control environment was relied upon for three of the nine claims; a slight improvement compared to 2008/09.

8 The number of claims requiring amendment reduced in percentage terms compared to 2008/09. The amendments resulted in an increase of funding due to the Council of £33,793.

9 The number of claims requiring qualification also reduced compared to 2008/09.

10 The grant claim coordination arrangements at the Council worked well. Actions were implemented during the year to improve the quality of claims submitted for certification although there remains the opportunity to make further improvements. I draw your attention to the action plan included at Appendix 2 of this report detailing these opportunities for improvement.

Certification fees

11 The anticipated fee for 2009/10 as notified to you in the Annual Audit Fee letter issued in April 2009 was £168,035 and we subsequently updated this to £128,000 in our June progress report. The total fee charged for the certification of nine grant claims and returns for 2009/10 will be around £120,000. Scope to reduce fees therefore remains through improvements to the control environment, working papers and quality assurance.

Actions

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

Background

13 In 2009/10, my audit team certified nine claims and returns with a total value of £267 million; the value of grant funding was £185 million and the value of returns was £82 million. A full analysis of claims and returns is provided at Appendix 1 of this report. 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.

14 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Wirral 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.

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

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

- For claims and returns below £100,000 the Commission does not make certification arrangements.
- 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 (limited review) 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.

Findings

Control environment

17 The starting point for our certification work for every grant claim or return whose value is in excess of £500,000 is our assessment of the control environment in place for the preparation and compilation of each claim or return. We consider the risk attached to the claim due to its value and inherent complexity and how the Council mitigates this risk through the control environment. A strong control environment provides the responsible finance officer with assurance that the grant claim or return they sign is accurate and complies with the relevant terms and conditions. Where we are able to place reliance on the control environment for a specific grant claim or return, we reduce the level of testing that we are required to perform.

18 The control environment is assessed across five themes.

- Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions.
- Control arrangements, including internal financial control and internal audit.
- Quality of authority's working papers.
- Expertise and knowledge of the preparers, including the adequacy of supervision and review.
- Cumulative knowledge of the problems associated with compilation of the claim or return.

19 In 2009/10, we assessed that the control environment could not be relied upon for six of nine claims and returns submitted for certification (67 per cent). The main reasons why we could not place reliance on the control environment were:

- previous record of amendment and/or qualification of the claim/return;
- actual value of expenditure inconsistent with expectation;
- relevant issues identified by Internal Audit; and
- insufficient demonstration of controls over payments administered by external parties.

20 We do not assess the control environment in respect of the housing and council tax benefits subsidy claim on which we are required to carry out extended testing irrespective of the control environment.

Specific claims

21 In 2009/10, my audit team certified nine claims and returns with a total value of over £267 million. In line with the Audit Commission's national approach, we carried out a limited review of three claims/returns and a full review of six claims/returns. We amended a total of four claims/returns and the financial impact of these changes resulted in Wirral Council claiming an additional £33,793 of grant.

22 For four out of the total nine claims or returns, I issued a qualification letter to the grant paying body highlighting instances where I believe the claims audited did not comply with the requirements of the certification instructions. We have also set out areas in which we feel the Council could improve its current arrangements in order to maximise the grant claimed and to minimise associated risks. Appendix 1 sets out a full summary of our findings.

23 The results of the 2009/10 programme are summarised in Table 1.

Table 1: **Key facts and figures**

	2008/09	2009/10
Total number of claims and returns	8	9
Total value of grant claims and returns	£238,918,959	£267,283,203
Number of individual claims above £500,000	8	9
Number of claims where reliance was not placed on control environment	6 (75%)	6 (67%)
Number of claims qualified	5 (63%)	4 (44%)
Number of claims amended	4 (50%)	4 (44%)
Number of claims amended which impacted on amount of grant claimed or value of return	3 (38%)	2 (22%)
Number of claims submitted late to auditor	3 (38%)	0 (0%)
Number of claims certified late by auditor	4 (50%)	0 (0%)
Certification fee	£114,304	£120,000
Increase/(decrease) to value of grant claimed arising from certification work	£571,217	£33,793

Housing and council tax benefits subsidy

24 The value of the housing and council tax benefits subsidy claim in 2009/10 was £152.7 million (£131.5 million in 2008/09). The claim was amended and a qualification letter was necessary.

25 Amendments to the claim resulted in a decrease of subsidy entitlement of £10,944. Amendments were necessary in respect of the following matters.

- Inclusion of a missing case.
- Water charges applied incorrectly.
- Fuel rate charges applied incorrectly.
- Ineligible expenditure removed.
- Incorrect start dates applied for council tax benefit.
- Compilation errors.

26 A qualification letter was necessary in respect of the following matters.

- Variances between headline and reconciliation cells.
The data for the return is provided by software generated reports. The return shows total values for categories of benefit in 'headline' cells as well as an analysis of the total split across a number of subsidiary cells. The 'headline' cell values are generated by different reports to the values of the subsidiary cells included in the return. The subsidiary cells are totalled in an 'in year reconciliation' cell. The value in the in year reconciliation cell should be equal to the value in the headline cell but we observed differences totalling £1,960.
- Reconciliation of amount paid to amount awarded within the HB system
This issue is similar in nature to that identified above in that the Council is required to reconcile the benefit paid to benefit awarded using a tool issued by the software supplier. After completing this exercise the Council found a difference of £19,791.
- Unadjusted errors identified during testing of individual cells.
 - Backdated benefits - we identified four cases where benefit had been overpaid as, in our opinion, no good cause to support eligibility for benefit had been established.

Recommendations

R1 Review the amendments made to the 2009/10 housing and council tax benefits subsidy claim and consider what action can be taken to prevent reoccurrence; in particular in respect of the amendments required for backdated benefit cases.

R2 Liaise with the software supplier to investigate and resolve the difference between:

- the headline cell and the reconciliation cell; and
- the amount awarded and the amount paid to claimants.

Sure Start, Early Years and Childcare Grant

27 The value of the claim in 2009/10 was £12.5 million (£10.2 million in 2008/09). The claim was not amended but a qualification letter was necessary.

28 Reliance was not placed on the control environment due to the following reasons.

- Cumulative auditor knowledge and experience of this claim; and
- Internal audit work in progress at the time of certification identified weaknesses at Children's Centres that were relevant to specific CI tests.

29 The qualification letter was necessary in respect of the following matters.

- £6,500 of capital expenditure was identified that did not relate to 2009/10.
- The Council paid £812,745 of Quality Improvement Grant to private, voluntary and independent sector providers for capital purposes. We were unable to conclude that this expenditure met the grant paying body's definition of capital expenditure. Our testing also identified that not all of the Quality Improvement Grant had been evidenced as being spent by providers.
- Our testing identified that records in respect of £784,960 of capital expenditure included in the claim do not record the purchase price, purchase date and current value of assets.

30 We also identified that documentation to demonstrate compliance with standing orders in respect of contracts awarded below £50,000 was not consistently maintained or held within Council departments.

Recommendations

R3 Ensure that capital expenditure funded by Sure Start, Early Years and Childcare grant meet the definition for capitalisation as set out by the DCSF.

R4 Ensure that asset records in respect of all assets funded by Sure Start, Early Years and Childcare grant meet the requirements of the DCSF.

R5 Ensure that decisions taken in respect of contracts awarded are clearly documented and evidence retained.

Teachers pension return

31 The value of the Teachers' Pension return in 2009/10 was £23.1 million (£22.5 million in 2008/09). The claim was not amended and no qualification letter was necessary.

32 Reliance could not be placed on the control environment for the following reasons.

- Cumulative auditor knowledge and experience of this claim, specifically in respect of the issues raised in the 2008/09 qualification letter.
- Total actual contributory salary for external payroll providers was larger than anticipated (note that a satisfactory explanation for this was subsequently obtained).

33 Testing confirmed that the action taken by the Council in response to the 2008/09 qualification letter has fully resolved the issues identified.

NWDA single programme grant

34 Four North West Development Agency (NWDA) single programme annual grant claims were certified in 2009/10. The total value of these claims over the lifetime of the projects will be £18.5 million.

35 Reliance was not placed on the control environment for three of the four claims. Three of the four claims had to be amended and in two cases a qualification letter was necessary.

36 Reliance could not be placed on the control environment for the following reasons.

- Insufficient demonstration of controls over payments administered by external parties.
- Actual value of expenditure inconsistent with expectation.
- Relevant issues identified by Internal Audit.

37 Three of the four NWDA claims were amended. One amendment resulted in an increase to the amount owed to the Council by £44,737. In all three cases, the amendments were necessary to correct relatively minor compilation errors. The reasons for amendment were:

- the stated amount of approved funding was incorrect;
- total expenditure incurred was understated; and
- inconsistency between the claim and supporting schedules of expenditure.

38 We identified similar compilation errors in respect of regeneration grant claims in 2008/09 and we recommended in our 2008/09 report that the Council 'review and improve the quality assurance process to reduce the number of compilation errors submitted to audit'. The Council has demonstrated action taken in 2009/10 in response to this recommendation. However, there remains opportunity for the Council to make further improvement.

39 Qualification of the 'Wirral International Business Park' and 'New Brighton Phase 2' claims was necessary in respect of the following matters'

- Expenditure included in the claim that did not relate to the claim period.
- Inconsistency between the amount of approved funding stated in the claim and communication provided by the NWDA.

Recommendation

R6 Review and continue to improve the quality assurance process to reduce the number of compilation errors present in claims submitted to audit; specifically in respect of regeneration claims.

Disabled facilities grant

40 The value of the Disabled Facilities Grant in 2009/10 was £960,000 (£1.2 million in 2008/09). Reliance was placed on the control environment and no amendments or qualification letter were necessary.

National non-domestic rates return

41 The value of the national non-domestic rates (NNDR) return in 2009/10 was £59.5 million (£58.7 million in 2008/09). Reliance was placed on the control environment and no amendments or qualification letter were necessary.

Quality assurance and grant claim coordination

42 The Council has developed and continues to operate good grant claim coordination arrangements which are supported by a Grants Manual. The role and responsibilities of the Grants Claims Coordinator outlined in the Manual represent good practice and, if followed, will ensure an efficient planning process and the timely delivery of certified claims/returns to grant paying bodies. The Grant Claims Coordinator's responsibilities, as set out in the Grants Manual, are to:

- identify new grant schemes for which the Council may be eligible;
- train and promote best practice to grant compilers;
- identify and monitor claims due for submission, and liaise with the Audit Commission regarding claim submissions;
- 'chase up' late claims with compilers and Departmental Management;
- review the cashflow advantages of early claims and adjust submission dates accordingly;
- liaise with Internal Audit regarding audit coverage to ensure systems of control are adequate and effective;
- circulate Audit Commission Certification Instructions to grant compilers;
- conduct pre-audit checks to ensure files contain supporting working papers and are suitable for submission to the Audit Commission; and
- reduce the cost of grant claim audit charges to the Council and to protect the financial interests of the Council.

43 All of the claims were submitted to audit on time and this is a significant improvement on previous years. As a result of the timely submission of claims to audit, all claims were also certified on time.

44 Four of the nine claims (44 per cent) required amendment, an improvement compared to 2008/09 when 50 per cent of claims were amended. The claims that were amended were the housing and council tax benefits subsidy claim and three NWDA single programme grant claims. The reasons for amendments to the NWDA claims have been discussed in paragraph 39 above and an associated recommendation has been raised.

45 Overall the grant claim coordination arrangements have worked well and it is important that they continue to do so.

Appendix 1 Summary of 2009/10 certified claims

Table 2: **Claims and returns above £500,000**

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing & council tax benefits subsidy	152,747,227	N/A	Yes	Yes
General SureStart, Early Years & Childcare	12,464,488	No	No	Yes
Disabled facilities	960,000	Yes	No	No
National non-domestic rates ⁱ	59,467,312	Yes	No	No
Teachers' Pension ⁱ	23,124,946	No	No	No
NWDA single programme - Merseyside Waterfront Regional Park	10,914,852 ⁱⁱ	No	Yes	No
NWDA single programme - Wirral International Business Park	2,109,335 ⁱⁱ	Yes	Yes	Yes
NWDA single programme - Intensive Start Up Support	1,593,863 ⁱⁱ	No	Yes	No
NWDA single programme - New Brighton Phase 2	3,901,181 ⁱⁱ	No	No	Yes
	267,283,203			

ⁱ returns that require auditor certification but do not relate to income to the Council. Total income requiring certification is therefore £184.7 million.

ⁱⁱ value relates to the amount of grant claimable over the lifetime of the project. The total amount of NWDA single programme funding shown above is £18.5 million of which £5.0 million was claimed and certified in 2009/10.

Claims between £100,000 and £500,000

No claims between £100,000 and £500,000 were submitted for certification during 2009/10.

Appendix 2 Action plan

Recommendations

Recommendation 1 Housing and council tax benefits subsidy

Review the amendments made to the 2009/10 housing and council tax benefits subsidy claim and consider what action can be taken to prevent reoccurrence; in particular in respect of the amendments required for backdated benefit cases.

Responsibility	Malcolm Flanagan
Priority	Low
Date	January 2011
Comments	As a specific exercise, backdates are reviewed under the services Q/A process; this measure has been in place for a considerable time. All cases are checked on a monthly basis. This is a matter of interpretation and we are waiting for this issue to be decided upon by the DWP. The amounts involved are nominal when compared to the grant claim and do not present a significant risk.

Recommendation 2 Housing and council tax benefits subsidy

Liaise with the software supplier to investigate and resolve the difference between:

- The headline cell and the reconciliation cell; and
- The amount awarded and the amount paid to claimants.

Responsibility	Malcolm Flanagan
Priority	Medium
Date	January 2011
Comments	Headline and reconciliation cells – there has been ongoing liaison with the software supplier who has undertaken considerable work with enhanced validation. The final discrepancy is minimal. The amount awarded and the amount paid to claimants – The discrepancies identified have been reduced to nominal amounts. Further work will be undertaken if any additional costs are justified.

Recommendation 3 Sure Start, Early Years and Childcare grant

Ensure that capital expenditure funded by Sure Start, Early Years and Childcare grant meet the definition for capitalisation as set out by the DCSF.

Responsibility	Andrew Roberts/Jenny Harris
Priority	Medium
Date	January 2011
Comments	Although the qualification is accepted the use of the grant was to improve the facilities and the grants given were used in accordance with the criteria set for the Quality Improvement Grant.

Recommendation 4 Sure Start, Early Years and Childcare grant

Ensure that asset records in respect of all assets funded by Sure Start, Early Years and Childcare grant meet the requirements of the DCSF.

Responsibility	Andrew Roberts/Jenny Harris
Priority	Medium
Date	January 2011
Comments	The details of this qualification have been shared with the Departments responsible for recording assets with a view to ensuring that records are regularly updated to reflect new capital assets.

Recommendation 5 Sure Start, Early Years and Childcare grant

Ensure that decisions taken in respect of contracts awarded are clearly documented and evidence retained.

Responsibility	Andrew Roberts/Jenny Harris
Priority	High
Date	January 2011
Comments	In future all contractual agreements are to be enhanced within this area to ensure improvements to documentation, evidence and relevant paperwork and their retention within the responsible Department.

Recommendation 6 NWDA single programme grant

Review and continue to improve the quality assurance process to reduce the number of compilation errors present in claims submitted to audit; specifically in respect of regeneration claims.

Responsibility	Dave Stone/Carl Gurnell
Priority	Low
Date	January 2011
Comments	The Grant Co-ordinator will continue to work closely with Officers and the Audit Commission to ensure all claims are submitted on time following a thorough quality assurance process.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946