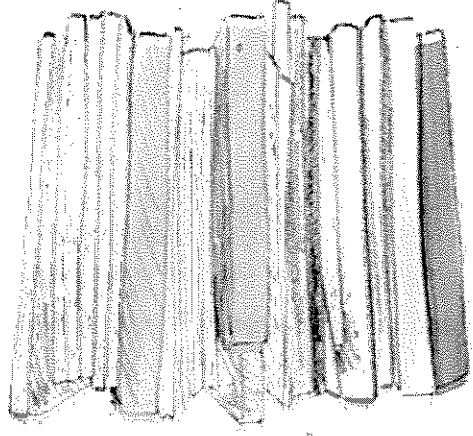




South Derbyshire District Council
Certification work report 2010/11

February 2012



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1 Introduction and approach

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As South Derbyshire District Council's (the Council) external auditor, Grant Thornton UK LLP undertakes certification work at the Council, acting as an agent of the Audit Commission.

The Audit Commission makes certification arrangements with grant-paying bodies, this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2010/11 were:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data

- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work, where possible.

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

Where a claim is qualified because the Council 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 Council or, claw-back its funding.

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.

2 Results of our certification work

Key messages

For the financial year 2010/11, we have certified 6 claims and returns for the Council, which covered £44,994,413 of the Council's finances. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.

The Council's performance in preparing claims and returns is summarised in the table below.

Table One: Performance against key certification measures

| Performance measure | Target met? | Achievement in 2010/11 | | Achievement in 2009/10 | | DoT ¹ |
|---|---------------|------------------------|-------|------------------------|-------|------------------|
| | | No. | % | No. | % | |
| Claims certified without amendment or qualification | 100% X | 2 | 33.3% | 3 | 50% | ↓ |
| Claims amended | 0% X | 1 | 16.7% | 1 | 16.7% | ↔ |
| Claims qualified | 0% X | 3 | 50% | 2 | 33.3% | ↓ |

¹ Direction of Travel

This demonstrates that the Council's performance in preparing claims and returns has marginally reduced when compared with 2009/10. In addition, given the significant issues and subsequent recommendations made in our prior year certification work report, the Council should continue to seek improvements in accuracy and record keeping to reduce the number of qualified and amended claims. Where claims and returns have been amended or qualified in 2010/11 and we have identified opportunities for improvement in the compilation in future years, we have made recommendations to support the Council's continuous improvement. These are included in the action plan at Appendix B.

Details on the certification of all claims and returns are included at Appendix A. Where we have concluded that an item is significant, further details are included below in this section of our report.

The Council's performance in meeting deadlines related to the certification of claims and returns is summarised in table two.

Table Two: Performance against deadlines

| Performance measure | Target met? | Achievement in 2010/11 | Achievement in 2009/10 | DoT ¹ |
|--------------------------------------|-------------|------------------------|------------------------|------------------|
| | | No. % | No. % | |
| Claims submitted by Council deadline | X | 5 83.3% | 4 66.7% | ↑ |
| Claims certified by auditor deadline | X | 5 83.3% | 5 83.3% | |

As in 2009/10, all claims and returns have been certified by the auditor deadline with the exception of the Housing and Council Tax Benefit claim. The delayed certification of this claim is due to substantial extended testing as a result of errors noted in the initial sample. More details on this claim are given below.

The Council did not submit the Disabled Facilities Grant claim by its required deadline, due to staffing pressures within the Housing department. The claim was submitted for audit before the auditor deadline and we were able to complete our work in time to submit the audited claim without deadline. However, the Council should aim to get all of its claims submitted by the Council deadline, as this reduces the risk of us not meeting our deadline.

Certification work 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.

Table Three: Hourly rates for certifying claims and returns for 2010/11

| Role | 2010/11 hourly rate |
|-----------------|---------------------|
| Engagement lead | £325 |
| Manager | £180 |
| Senior auditor | £115 |
| Other staff | £85 |

Our fee for certification work at the Council in 2010/11 was £12,679, excluding the fee for certification of the Housing and Council Tax Benefit claim. The fee for this claim is expected to be approximately £46,500. Our overall estimated fee of £59,179 is slightly higher than the £55,216 for 2009/10 but is broadly in line with our estimate of £55,000 included in our audit plan, presented to the Audit Sub-Committee in February 2011. Details of our fee by claim and return and how this compares to last year are included at Appendix A.

Cost of reporting to those charged with governance

The cost of reporting to those charged with governance on the results of certification work is a requirement of section 28 of the Audit Commission Act 1998. This includes debriefs on individual claims, with relevant staff and time allocated to produce this report. The cost of this is apportioned over each grant certified and not reported as a separate item. The total cost apportioned across all grants for 2010/11 of reporting to those charged with governance is £1,320.

Significant issues

Submission procedures

In 2009/10 officers introduced new sign off procedures with the aim of strengthening submission procedures and reducing the number of amended and qualified claims. When certifying the claims for 2009/10 we identified that the procedures had not been followed in every case whilst officers agreed to pursue this further in 2010/11. Our experience this year is that the procedures are still not operating effectively in all cases. Amendments made to claims and returns related to transposition errors, non-agreement of balances to those reported in the financial statements and use of incorrect dates to calculate average balances.

Amended and qualified claims should be avoided as they incur higher audit fees, due to the greater auditor input required to resolve the discrepancies. A recommendation has been made in the action plan at Appendix B.

HRA subsidy base data return

Housing Revenue Account Subsidy (HRAS) is payable by/ to the Department for Communities and Local Government (DCLG), to reflect any shortfall/surplus between expenditure and income on the Council's notional housing revenue accounts (HRA).

The dwellings analysis within the claim form must be supported by a detailed breakdown which agrees to prime records. In practice this means that the analysis must be supported by either:

- a comprehensive survey of dwelling types in the year;
- a comprehensive survey in the past, together with a reliable and accurate system for recording and classifying acquisitions and disposals in subsequent years; or
- other supporting records, for example detailed property holding records.

As reported in 2009/10, the Council does not hold such comprehensive records for all archetypes and consequently the level of testing that we are able to undertake on the dwelling analysis is limited. The Council has considered an exercise to provide these records in previous years but has found the costs of the exercise would outweigh any potential benefits. This issue is reported here for information, as it is likely that it will not recur in future, due to the introduction of self-financing for the

HRA from April 2012 and the expected changes in the valuation method for housing stock.

Our testing of lease terminations identified that the Council does not maintain a sufficient audit trail to support the transactions. From a sample of 20 terminations, 15 could not be agreed to external documentation. This issue led to qualification of the return. A recommendation has been made in the action plan at Appendix B.

Housing and council tax benefit scheme

Local authorities responsible for administering housing and council tax benefit schemes can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits. The form upon which these subsidies are claimed is subject to our certification and the findings from our work are noted below.

Our initial testing of the claim form identified errors in all four of the tenure types, namely rent rebates (tenants of non-HRA properties), rent rebates (tenants of HRA properties), rent allowances and council tax.

As a result of these errors and the findings from our work in previous years, the Council completed extended testing on a total of 16 cells, covering all tenure types, to enable the errors to be quantified through extrapolation. We are in the final stages of certifying this claim and have quantified the impact of these errors in our draft qualification letter to be an over-claim by the Council in the region of £200,000.

Having considered the results of this testing, the Council has taken action to strengthen its arrangements in future, by introducing additional quality checks.

We have made recommendations at Appendix B to assist the Council in improving the quality and supporting documentation of its benefits arrangements.

Acknowledgements

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

**Grant Thornton UK LLP
February 2012**

A Details of claims and returns certified for 2010/11

| Ref | Claim | Claim value 2010/11 | Amended? Y/N | Effect in amount due to Council (£) | Qualified Y/N | Fee 2010/11 (£) | Fee 2009/10 (£) | Fee variance (£) |
|-------|---|------------------------|-----------------|--|------------------|-------------------------|-----------------------|----------------------|
| LA01 | National Non Domestic Rates Return | 19,090,942 | N | n/a | N | 4,465 | 4,515 | (50) |
| BEN01 | Housing and Council Tax Benefits Scheme | 21,547,402 | Y | Approx. ² (£200,000) | Y | 46,500 (est.) | 41,850 | 4,650 |
| HOU21 | Disabled Facilities Grant | 269,000 | N | n/a | N | 1,173 | 933 | 240 ³ |
| HOU01 | HRA Subsidy | 3,468,108 | Y ⁴ | (3,772) | N | 1,698 | 2,815 | (1,117) ⁵ |
| HOU02 | HRA Subsidy Base Data Return | n/a | Y | n/a ⁵ | N | 3,770 | 3,783 | (13) |
| CFB06 | Pooling of Housing Capital Receipts | 618,961 | N | n/a | Y ⁶ | 1,573 | 1,320 | 253 ⁵ |
| | Total | 44,994,413 | | | | 59,179 (est) | 55,216 | 3,963 |

² The results of this claim are still being finalised with the Council therefore only an approximate value for amendments and fee can be given at the time of writing. We will provide a verbal update to councillors at the meeting of Audit Sub-Committee on 22 February 2012.

³ Fee is higher in 2010/11 due to a senior auditor having to perform certification work as a result of the late submission of the claim for audit by the Council.

⁴ Cell F002ci was amended from £1,783,810 to £1,674,390; cell F004ci was amended from £9,445,000 to £12,615,000; cell F005ci was amended from £9,130,000 to £12,309,000. Fee is lower than 2010/11 due to further synergies between financial statement audit and certification work resulting in time efficiencies.

⁵ Cell F040MM was amended from £32,234 to £34,234, cell F007RI was amended from £67.03 to £64.66.

⁶ Claim qualified due to fourth quarter payment to Department for Communities and Local Government being made one day after payment deadline. More manager input was needed to discuss the qualification, resulting in a higher fee when compared with 2009/10.

B Action Plan

| Claim or return | Recommendation | Priority (H/M/L) | Management response & implementation details |
|-------------------------------------|---|---------------------|---|
| HOU01: HRA Subsidy | A number of amendments were made to these returns as a result of compilation errors. | H | Management response: Agreed |
| HOU02: HRA Subsidy Base Data Return | <p>In respect of HOU01 these were:</p> <ul style="list-style-type: none"> cell F002ci amended from £1,783,810 to £1,674,390, due to incorrect dates being used to calculate average borrowings figure cell F004ci amended from £9,445,000 to £12,615,000 and cell F005ci amended from £9,130,000 to £12,309,000, due to entries not being consistent with those reported in the Council's 2010/11 financial statements. <p>In respect to HOU02 these were:</p> <ul style="list-style-type: none"> cell F004MM amended from £32,234 to £34,234, due to transposition error in compiling claim cell F007RI amended from £67.03 to £64.66 to agree to the rent charge as calculated across 52 weeks, as agreed to the Orchard Housing System report. | | <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: To apply to all future claims - immediate</p> |
| HOU02: HRA Subsidy Base Data Return | <p>Recommendation</p> <p>To avoid errors of this nature in future years, the Council should review the content of the current sign off checklist to ensure that it has steps to ensure the accuracy and quality of claims. The use of the checklist should be enforced for all claims and returns.</p> <p>From a sample of 20 lease terminations selected for testing, only 5 could be agreed to supporting documentation. From discussions with the Housing Officer, we have ascertained that there is no internal policy to retain termination records unless a client's account is in arrears. However, certification instructions require councils to maintain an audit trail for such matters.</p> <p>There is also an operational risk that the Council would not be able to answer queries about the client tenancy if any were received at a later</p> | H | <p>Management response: Agreed. We note that as at the time of the audit there was an archiving backlog due to switching over to a new Northgate system. This backlog has since been cleared and the process is operating normally.</p> <p>Responsible officer: Chief Financial Officer</p> |

Claim or return

Recommendation

Priority
(H/M/L)

Management response & implementation details

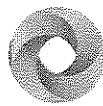
| | |
|--|---|
| <p>date.</p> <p>Recommendation The Council should ensure that supporting documentation is retained for a period of time to fulfil certification requirements and mitigate any potential operational risk.</p> | <p>Implementation date: 1 April 2012</p> |
| <p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>Our review of the Council's rent rebates (tenants of non-HRA properties) population of 51 claimants, identified errors with 33 claims. These issues arose due to insufficient audit evidence, expenditure misclassification, ineligible housing benefit being awarded and incorrect income assessments being made. These errors contributed towards approximately £11k of overpaid subsidy.</p> <p>Recommendation The Council should ensure that non-HRA claims are entered accurately and that all supporting documentation is retained for the requested period of time.</p> | <p>H</p> <p>Management response: A review will be undertaken of the caseload before 31 March 2012, concentrating on areas of risk in order to correct obvious errors within the year. In consultation and discussion with the Service Provider it is intended to develop and introduce a greater degree of risk-based in-year sampling and advice is being sought from the Software Supplier on how best to achieve this. In addition, an Internal Audit currently being undertaken is also looking at how best to target better use of the software.</p> <p>Responsible officer: Client Services Manager</p> <p>Implementation date: 1 April 2012</p> |
| <p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>A number of benefit cases, across all tenure types, were identified as having been processed with incorrect earnings figures, inaccurate income assessments and insufficient audit evidence.</p> <p>Recommendation The Council should ensure that all case details are entered as accurately as possible, so that claimant records reflect the true position of the respective claimant.</p> | <p>H</p> <p>Management response: Improvements have been made since last year such as the introduction of a self-employed income assessment sheet and a clearer definition of working family's tax credit income. However, these changes were only made at the end of the 2009/10 audit and have yet to fully percolate through into current work.</p> <p>The introduction of the HBCOUNT methodology by the Client Team was planned for 2010/11, as a means to identify such errors but unfortunately this was delayed owing to the extensive work on extended testing for the 2010/11 audit.</p> |

Claim or return

Priority
(H/M/L)

Management response & implementation details

| | |
|--|---|
| <p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>A number of rent allowance cases were identified as having been misclassified between expenditure type. This can have an impact on subsidy claimed, as expenditure types have differing subsidy levels.</p> <p>Recommendation</p> <p>The Council should review its rent allowance cases to ensure expenditure claimed has been correctly classified.</p> | <p>and the impact on resources. However, this has now been introduced and is producing a greater level of case review than previously which should feed through into improvements in assessment.</p> <p>Responsible officer: Client Services Manager</p> <p>Implementation date: Immediate</p> |
| <p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>The current quality checks focus on isolated incident reviews. A number of the errors identified during our testing would not be picked up by this level of review. Comprehensive quality checks would allow the Council to identify and correct any errors at an earlier stage. This could potentially reduce the extent of auditor testing thereby reducing certification fees.</p> <p>Recommendation</p> <p>The Council should increase the current depth and extent of quality checks and continue to perform these checks on benefit claims, for all tenure types on a risk basis. This will help to identify and mitigate the risk of error in claim processing</p> | <p>H</p> <p>Management response: It is intended to review these cases before the year end and on a quarterly basis at a high level.</p> <p>Responsible officer: Client Services Manager</p> <p>Implementation date: Immediate</p> |
| <p>BEN01: Housing and Council Tax Benefits Scheme</p> <p>The current quality checks focus on isolated incident reviews. A number of the errors identified during our testing would not be picked up by this level of review. Comprehensive quality checks would allow the Council to identify and correct any errors at an earlier stage. This could potentially reduce the extent of auditor testing thereby reducing certification fees.</p> <p>Recommendation</p> <p>The Council should increase the current depth and extent of quality checks and continue to perform these checks on benefit claims, for all tenure types on a risk basis. This will help to identify and mitigate the risk of error in claim processing</p> | <p>Management response: As stated earlier the Client Team has introduced HBCOUNT for its testing methodology and discussions are ongoing with the Service Provider to identify an appropriate approach for the 10% sampling carried out by them. At the end of this review a formalised and agreed regime will be ready for adoption to address the issues raised by the auditors.</p> <p>Responsible officer: Client Services Manager</p> <p>Implementation date: June 2012</p> |



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