



Exeter City Council

Certification work report 2010/11

January 2012



Content

| | | |
|---|-----------------------------------|---|
| 1 | Introduction and approach | 1 |
| 2 | Results of our certification work | 3 |

Appendices

| | |
|---|---|
| A | Details of claims and returns certified for 2010/11 |
| B | Action Plan |

1 Introduction and approach

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As Exeter City Council's (the Council) external auditors, Grant Thornton 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 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; and

- 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; or
- 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 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 our work, which impacts on the certification fee.

2 Results of our certification work

Key messages

For the financial year 2010/11, we certified 6 claims and returns for the Council, which amounted to £112,185,665. This represents both funding claimed by the Council and returns to grant-paying bodies, as well as other financial information.

The Council's overall performance in preparing claims and returns has improved compared to last year as summarised in the table below.

Table One: Performance against key certification targets

| Performance measure | 2010/11 | 2009/10 | Direction of travel |
|-----------------------|----------|----------|---------------------|
| Without qualification | 5 | 4 | ↑ |
| Amended | 0 | 0 | ↔ |
| Qualified | 1 | 2 | ↑ |
| Total | 6 | 6 | |

As last year, working papers received in respect of all grants were of a high standard.

The claim which was qualified was the Housing and Council Tax Benefits Scheme, but this related to a single issue and for a very low extrapolated amount. A further issue, which resulted in an amendment, related to the assessment of Student Loan income for benefit awards.

Although errors were identified the processes that are in place within the Housing Benefits Section for Quality Assurance are considered to be good. Claims are reviewed regularly and it is apparent that this has contributed to the low error rate that has been experienced in the 2010/11 claim.

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.

Where claims and returns have been amended or qualified 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.

The Council's and our performance in meeting deadlines relating to the certification of claims and returns is summarised in Table two

Table Two: Performance against deadlines

| Deadline | 2010/11 | 2009/10 | Direction of travel |
|-----------------------|---------|---------|---------------------|
| Submitted by deadline | 6 | 5 | ↑ |
| Certified by deadline | 6 | 6 | ↔ |

The Council has improved its arrangements to ensure that all claims and returns have been submitted to us within the required deadlines. This has enabled us to meet all the certification deadlines in 2010/11.

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. In recognition of the financial pressures faced by Councils, the Audit Commission has maintained these rates in line with those prescribed for 2009/10.

When billing the Council for this work, we are required to use these rates, as shown in the table below.

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

| Role | 2010/11 | 2009/10 |
|-----------------|---------|---------|
| Engagement lead | £325 | £325 |
| Manager | £180 | £180 |
| Senior auditor | £115 | £115 |
| Other staff | £85 | £85 |

Our fee for certification work at the Council in 2010/11 was £31,576 compared to £33,937 for 2009/10, a reduction of 7.0%. Details of our fee by claim and return and how this compares to last year are included at Appendix A.

Significant issues

Housing and council tax benefit scheme

For this scheme, we are required to test a random sample of 20 claims for each of the four benefit types - Council Tax, Rent Allowance, Rent Rebates and Non-HRA. If any errors are identified in the initial sample, we are required to undertake additional testing in order to form our conclusion.

Our initial testing identified errors in relation to rent allowances. From our initial testing of a sample of 20 cases, two were identified where the benefit entitlement had been incorrectly calculated causing an underpayment. One case was due to the incorrect application of regulations to a student loan and the other related to the incorrect Local Housing Allowance (LHA) rent being applied to the assessment. As a result, additional testing needed to be carried out on both elements of the claim.

- All cases where a student loan was used to assess benefit were examined, this was due to there being less than 100 cases on the Academy system. Whilst additional errors were identified, we were able to amend the claim, based upon the results from our 100% sample and did not need to qualify.

- An additional sample of 40 LHA rents were examined and one further error was identified relating to a period of 3 days where the assessor did not update the change. The effect of this was a 9p overpayment on the claim. The regulations require that this is extrapolated against the cell population and reported as a qualification issue. The total extrapolated amount was £3.00.

The results of the testing indicates that the Benefits Section have good Quality Assurance processes in place and this is reflected in the number of errors that have been identified during the testing process.

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
January 2012

A Details of claims and returns certified for 2010/11

| Claim or return | Value (£) | Certificate | Summary | Fee 2010/11 (£) | Fee 2009/10 (£) |
|--|--------------------|-----------------------|--|-----------------|-----------------|
| Housing and council tax benefit scheme | 43,725,785 | Qualified | Whilst the majority of the claim was fairly stated and in accordance with terms and conditions, our testing identified errors in the calculation of awards due to incorrect application of regulations for student loans and an instance where the LHA rent had not been correctly applied. We have made recommendations in relation to these issues at Appendix B. | 19,985 | 20,111 |
| Pooling of housing capital receipts | 495,139 | Without Qualification | The return was fairly stated and in accordance with terms and conditions. | 1,218 | 862 |
| HRA subsidy | 3,945,503 | Without Qualification | The return was fairly stated and in accordance with terms and conditions. Additional testing to complete Part B, on a cyclical basis. | 2,715 | 1,830 |
| HRA finance base data return | N/A | Without Qualification | The return was fairly stated and in accordance with terms and conditions. Less testing required as the issues identified in 2009/10 had been resolved. | 2,963 | 5,104 |
| Disabled facilities | 281,000 | Without Qualification | The return was fairly stated and in accordance with terms and conditions. | 633 | 936 |
| National non-domestic rates return | 63,738,238 | Without Qualification | The return was fairly stated and in accordance with terms and conditions. | 3,200 | 3,935 |
| Cost of reporting to those charged with governance | - | - | | 862 | 940 |
| Total | 112,185,665 | | | 31,576 | 33,718 |

B Action Plan

| Claim or return | Recommendation | Priority | Management response & implementation details |
|--|---|----------|---|
| Housing and Council Tax benefit scheme | The Council should consider changes to the internal quality review arrangements already in place to ensure that student loans are applied to the benefit assessment in line with regulations. | Medium | Agreed – the Council will review its internal quality review arrangements to ensure that student loans are correctly applied in line with current benefit regulations Head of Treasury Services End of March 2012 |



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