



## **London Borough of Lewisham**

Certification work report 2011-12

February 2013

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# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as your auditors and acting as agents of the Audit Commission, are required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Six claims and returns were certified for the financial year 2011-12 relating to expenditure of £330 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to matters arising in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 It should be noted that most of the certification work described in this report was completed by the Audit Commission prior to our appointment as your auditors from November 2012. Since our appointment we carried out further follow up work on the Housing and council tax benefits claim, which was requested by the Department for Work and Pensions. We are also responsible for the overall reporting of the results of the certification programme to the Audit Commission and to the Council. The detailed findings set out in this report therefore represent the results of your previous auditor's work.
- 1.7 A summary of the claims and returns subject to certification and details of the certification fees are provided at Appendix B. The key messages from this review are summarised in Exhibit One, and set out in detail in the next section of this report.

### Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

## Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	The Council submitted five of the six claims on time. The audit team certified all six claims within the deadlines set by the relevant Government departments.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Amendments were required to four of the six claims and returns certified by the audit team. Two of the amendments were presentational rather than numeric, and none of the amendments had a significant impact on the amount of subsidy due to the Council.  However all amendments to claims and returns require additional time and resources of officers and of the auditor and can result in higher certification fees. There is therefore some scope to further improve arrangements for the compilation of claims and returns.  The Housing and Council Tax Benefits claim was subject to a qualification in 2011/12.
Supporting working papers	Supporting working papers for the majority of claims and returns were of a good standard overall. There were some issues with the supporting evidence for the Housing and Council tax benefit claim and the Teachers' pension claim. We set out these issues in the body of this report.

### The way forward

- 1.8 We have made four recommendations to assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant or additional certification fees.

### Acknowledgements

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

Grant Thornton UK LLP

February 2013

## 2 Results of certification work

### Key messages

- 2.1 Six claims and returns were certified for the financial year 2011-12 relating to expenditure of £330 million. The audit team certified all six claims within the deadline set by the relevant Government department.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
<b>Total claims/returns</b>		<b>6</b>		11		
Number of claims submitted on time	100%	5	83	5	45	→
Number of claims certified with amendment	0%	4	66	2	18	↓
Number of claims certified with qualification	0%	1	17	4	36	↑

- 2.3 This analysis of performance shows that:
- The number of grant claims has decreased from 11 to six because of changes to national grant funding regimes and because there were fewer single programme grants in 2011/12. This has made the grant preparation and certification process less onerous for the Council.
  - Five claims were submitted on time for certification, which is the same as last year.
  - There was one qualification in 2011/12, which was in respect of the housing and council tax benefit claim. This represents an improvement in performance compared with 2010/11, when four claims were qualified.
  - Four of the six claims certified by the audit team required amendment (although two of these amendments were presentational only). Although the values of amendments were relatively small, this indicates there is some further scope for improving arrangements for compiling the claims and ensuring compliance with the requirements of the grant paying bodies.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.

- 2.5 Where we have identified opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.
- 2.6 Your previous auditors the Audit Commission, charged a total fee of £69,247 against an indicative budget of £105,000. Details of fees charged for specific claims and returns are included at Appendix B.
- 2.7 Additionally we plan to charge a fee of £8,153. This relates to additional work requested by the Department of Work and Pensions, in respect of your housing benefits qualification. Of this, £3,990 relates to the overall reporting of the results of claims certification work to the Council and to the Audit Commission.
- 2.8 Overall appendix B shows that your certification fees have considerably reduced compared with 2010/11. This is indicative of an improvement in quality and a reduction in the number of qualification issues arising. There was also an improvement in the level of help, cooperation and speed of officers dealing with audit queries which has contributed to significantly reduced fees.

### **Findings**

- 2.9 Specific issues relating to individual claims were as follows.

#### **Certification of housing and council tax benefit scheme**

- 2.10 The claim was submitted to the audit team on 30 April 2012 in line with the timetable. The claim was amended by £42,000 and was also qualified. Fewer errors were identified during the 2011/12 certification, indicating an improvement in the data quality of benefits and the overall compilation of the claim. However there were still a number of classification errors found in overpayments and extended payments and in some cases the supporting documentation was missing.
- 2.11 The qualification of the claim was largely due to the Council's policy of disposing of all benefits documents which are more than six years old from the document imaging system. Because of this issue the Department for Work and Pensions (DWP) also requested that we carry out further work on your claim. That additional work required investigating the cases reported to the DWP, to provide them with additional information and assurances regarding those cases. No further issues arose.
- 2.12 We are not aware of other councils having a similar policy of disposing of records relating to continuing cases after six years. The reason previously given by Council officers is that it is due to the additional cost of retaining the records. In our view there is also a cost implication to not retaining the records. A considerable amount of officer and auditor time is taken every year in qualifying the benefits claim and responding to questions from the Department of Work and Pensions, where there is a lack of evidence to support older cases. In our view the Council should consider the cost of this and also whether this issue has the potential to put its grant funding at risk.
- 2.13 The claim was certified on 25 October 2012, over a month before the deadline, reflecting the high level of help, cooperation and speed of dealing with audit queries.

#### **Certification of Teachers' pensions return**

- 2.14 The claim was submitted to the audit team on 29 June 2012 which is within the required date of 30 June 2012. The claim presented for certification did not initially agree to

underlying records and the certification of the claim was delayed because the evidence requested in support of audit testing was not provided promptly. Many figures in the claim had to be amended to agree to the underlying records of the Council. However the net effect on the amount payable was relatively small.

# A Approach and context to certification

## Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

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

Where a claim is qualified because the authority 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 authority 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 this work, which impacts on the certification fee.

## B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	246,727k	Yes	42,000	Yes	69,618	44,317	The amount of additional testing required has been less this year due to the reduced level of errors identified within individual claim cells. In addition, Council officers have undertaken all additional testing, whereas in prior periods this work was shared between the Auditor and Council officers. This has resulted in a significantly reduced fee.
National non-domestic rates return	45,309k	Yes	Nil	No	9,771	7,476	A comprehensive audit trail was provided to show transactions included within each line of the claim. However the claim submitted to the auditor in June 2012 was only a photocopy of an earlier submission in May 2012 which was not given to the auditor. Hence the claim had to be amended and re-signed before certification.

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Teachers' pensions return	17,517k	Yes	2,000	No	19,226	7,778	There were a number of discrepancies between the original claim and the underlying records presented to the auditors. Consequently the claim had to be amended. Although the net effect was only £2k this increased the amount of time needed to certify the claim. .  The quality of supporting records was also an issue in 2010/11.
Housing Revenue Accounts Subsidy	15,145k	No	Nil	No	5,310	3,127	Working papers were of a high standard and there were no issues
Pooling of housing capital receipts	5,265k	No	Nil	No	4,032	3,487	Working paper were of high standard and there were no issues.
Single programme grant	200k	Yes	Nil	No	14,068	3,062	There was only one claim in 2011/12 resulting in significantly reduced fees. Only part A testing was required because the claim was only £200k. A presentational error was found by the auditor requiring amendment and recertification.

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified ?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Subsequent queries and overall management and reporting of the certification programme (Grant Thornton)						£8,153	Additional work responding to queries from the Department of Work and Pensions and the overall reporting of the grant certification programme to the Council and to the Audit Commission. (note 1)
<b>Total</b>	<b>£330,163k</b>		<b>£44,000</b>		<b>£122,025</b>	<b>£77,400</b>	(note 2)

(note 1) – overall management and reporting costs were not separately identified in the 2010/11 grants certification report from the Audit Commission

(note 2) – the comparison excludes grants from 2010/11 which are no longer subject to certification

## C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
All claims	Review and improve management arrangements over the quality of grant claims preparation, to comply with the requirements of the grant paying body, to support an efficient and cost-effective certification and to reduce the number of amendments required.	M	Agreed, but this needs to be seen in the context of further planned reductions to the cost of the Finance function and practical implementation will not include adding additional layers of management review.
Housing and council tax benefit scheme	Review the Council's policy of disposing of all information on the document imaging system which date back to more than six years.	M	The Council has reviewed its requirements in this area thoroughly and does not plan to alter its policy on documentation in this regard.
Teachers' pension return	Quality assure the working papers supporting the Teachers' pension return, to ensure that the claim agrees to the underlying records.	M	Agreed
Teacher's pension return	Respond promptly to auditor queries on the Teacher's pension return, to facilitate an efficient and cost effective audit.	M	Agreed

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