

Certification of claims and returns - annual report

Southampton City Council

Audit 2009/10

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Summary

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 prove that it has met the conditions which attach to these grants.

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.

Certification of claims and returns

1 The Council receives about £117.4 million of funding from various grant paying departments. It also made four returns to government departments totalling £104.1 million that we certified, including the £90.4 million National Non-Domestic Rates Return. Those departments attach conditions to grants and returns and the Council must show that it has met those conditions. If it cannot evidence this, the funding might be at risk. It is therefore important that the Council manages certification work properly and can prove that it has met the relevant conditions.

2 In 2009/10, my audit team certified nine claims and returns with a total value of £221.5 million. Of these, we carried out a limited review of five claims and returns and a full review of four (paragraph 8 explains the difference). We amended errors in five instances, three that had been subject to a full review and two that had received a limited review. For two of the claims and one of the returns, our certification work did not enable us to provide an unqualified certificate and we issued a qualification letter to the relevant department. Appendix 1 sets out the details.

Significant findings

3 There are no significant issues arising from our certification of grant claims for 2009/10 that I need to draw to the Council's attention. I summarise below the main features of my certification work and what I found.

Certification fees

4 The fees I have charged for 2009/10 grant certification work are £77,182, which compares with the estimated figure in my original 2009/10 fee letter of £71,000 and the fee for 2008/09 of £86,359.

Background

5 The Council claims £117.4 million for specific activities from grant paying departments. It also made four returns to government departments totalling £104.1 million that we certified, including collecting and remitting £90.4 million to the National Non-Domestic Rates Pool. As this is a significant element of the Council's income it is important that it manages this process effectively. In particular this means:

- a satisfactory control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim or return.

6 Auditors 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 the Council. Fees are charged to cover the full cost of certifying these claims or returns. The fee depends on the work required to certify each claim or return.

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

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

- The Commission does not certify claims and returns below £125,000 and for claims and returns between £125,000 and £500,000 auditors undertake limited tests to agree claim-form entries to underlying records, but do not undertake any testing of eligibility of spending.
- For claims and returns over £500,000 auditors assess the control environment for preparing the claim or return to decide whether they can place reliance on it. Where auditors place reliance on the control environment, they undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of spending or data. Where auditors cannot place reliance on the control environment, they undertake all the tests set out in the relevant certification instruction and use their assessment of the control environment to inform their decisions on the testing required. This means that the audit fees for certification work are lower if the control environment is strong.
- For claims spanning more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and auditors apply their testing accordingly. The approach impacts on how much grant claims work auditors carry out, placing more emphasis on the high value claims.

9 Auditors are required to complete all of the tests in the relevant certification instruction, if reliance on the control environment has led to a reduced level of testing for more than two years.

Findings

Control environment

10 There were two claims or returns where we judged it inappropriate to place reliance on the associated control environment. This was mainly because of previous problems with those claims, a lack of comprehensive supporting documents, or a change of responsible officer since our last review. We have no significant concerns about control weaknesses for these two areas. These were the following.

- Housing Revenue Account subsidy; and
- New Deal for Communities.

11 Note that our approach for the Housing and Council Tax Benefit claim does not include an assessment of the control environment. This is because of the significant value and complexity of the claim at all councils and the requirements of the government Department.

12 We were also required to complete a full review of the Disabled Facilities Grant claim in 2009/10 as we had not completed a full review in either of the previous two years.

Specific claims

13 We agreed amendments to figures on five claims and returns this year, as follows.

- *Housing benefit and council tax benefit subsidy claim*: this is a complex and demanding claim and it is common across councils for auditors to find errors from our detailed testing. In our testing this year we found several small-value errors. The overall net impact of all errors was to reduce the £110 million claim by £36,310. We therefore decided there were no significant problems with the completion of the claim, an outcome consistent with a trend of decreasing errors found in the Council's subsidy claim in recent years.
- *Early years sure start*: the figures for the main capital grant were misstated by £6,633 and we therefore agreed the required amendment with officers before certification of the return.
- *HRA subsidy claim*: the figure for the average amount of lending outstanding in 2009/10 was corrected to £123,130,255 before we certified the claim, an increase of £4,621,465.
- *National Non-Domestic Rates return*: Losses on collection were amended by £487,056 to reflect the level of write-offs that had been corrected during preparation of the financial statements for 2009/10. The return was amended prior to certification.

- *New Deal for Communities statement of grant usage*: although the total amount of grant used in 2009/10 was not amended there were a number of changes made to the supporting schedules for the statement of grant usage, for example the conversion of the figures for one scheme from euros to pounds sterling and amendments to ensure that the level of expenditure was consistently disclosed for two schemes within the supporting schedules. The amendments were corrected before certification.

14 We qualified the certificates on three claims this year, and issued reports to the respective government departments, as follows.

- *Housing benefit and council tax benefit subsidy claim*: Our qualification letter summarised the findings from the detailed testing and included extrapolations that were based on those findings. The report covered the reconciliation of benefit granted with benefit paid, underpaid and overpaid benefit, and misclassified items. We are required to report such issues to the Department of Work and Pensions, to enable them to consider whether any action is necessary.
- *Teachers' Pensions*: We reported that the Council had not received assurance from either an external or internal auditor over the payroll service provided to Shirley High School by an external payroll provider.
- *New Deal for Communities*: The qualification included the issue of advance payments in respect of the redevelopment of 'Eastpoint', including a balance of £3.48 million at 31 March 2010 held in an 'escrow' bank account by an independent firm of solicitors in Southampton. We reported that there were 14 projects for which total payments made in 2009/10 had exceeded their project approval for the year, that there were some inconsistencies between the statement of grant usage and the supporting schedules and that three invoices were not produced to support payments made. We also reported that we were unable to agree third party funding to the supporting records for two of the schemes that we tested.

Appendix 1 Summary of 2009/10 certified claims and returns

Claims and returns above £500,000

Claim or return	Value £	Adequate control environment (see para 10)	Amended	Qualification letter	Audit fees 2009/10 £	Audit fees 2008/09 £
Housing and council tax benefit	110,067,937	N/A	Yes	Yes	44,678	54,327
Pooling of Housing Capital Receipts	2,743,069	Yes	No	No	1,828	1,435
Sure Start, Early Years and Childcare	7,630,351	Yes	Yes	No	2,874	3,179
HRA Subsidy	-4,073,969	No	Yes	No	5,576	5,263
HRA Subsidy Base Data Return	No values [17,050 dwellings]	Yes	No	No	2,927	2,583
Disabled Facilities	660,000	Yes	No	No	1,792	854
NNDR	90,356,836	Yes	Yes	No	3,155	5,812
Teachers' Pension Return	11,046,827	Yes	No	Yes	2,798	2,524
New Deal for Communities	3,049,518	No	Yes	Yes	10,140	8,663

Claims between £125,000 and £500,000

Claim	Value £	Amended
None		

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