

# Certification of claims and returns - annual report

Portsmouth City Council

Audit 2010/11

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# Summary

**Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable.**

**This report summarises the findings from my certification of 2010/11 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that were amended or qualified.**

## **Certification of claims**

- 1** In 2010/11, my audit team certified eight claims with a total value of £210 million. We qualified one claim and amended errors on this claim and one other.
- 2** The single qualification related to an underpayment of benefits identified during our work, rather than any systematic errors or control weaknesses. In such cases, the certification instruction requires us to issue a qualified opinion.
- 3** The errors on the two claims arose from misclassification of expenditure and incorrect values being input to the claim.
- 4** The fees I have charged for the 2010/11 grant certification work are £52,159, which compares favourably to the estimated figure of £71,000 and the fee for 2009/10 of £57,917.

# Background

5 The Council claims £397 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- having a satisfactory control environment over each claim and return;
- compiling the grant claims and returns under requirements and deadlines set by the grant paying departments; and
- evidencing the Council has met the conditions attached to each claim.

6 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 Portsmouth City Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the work required to certify each claim or return.

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

- For claims and returns below £125,000 the Commission does not certify arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree 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. Audit fees for certification work can be reduced if the control environment is strong because:
  - Where reliance is placed on the control environment, auditors undertake limited tests 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 the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required.
- 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 grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Audit approach

**8** My risk assessment identified two claims where I judged it inappropriate to place reliance on the associated control environment

- Housing Revenue Account subsidy
- Housing Revenue Account base data return

**9** In these two instances, I didn't have significant concerns about controls weaknesses within the underlying financial systems. However I had experienced problems with the audit of those claims in the previous year.

**10** My cyclical audit approach requires a full review of every claim at least once every three years. The claims this applied to in 2010/11 were:

- Disabled Facilities
- Sure Start, Early Years and Childcare

**11** Note that our approach for the Housing and Council Tax Benefit claim does not include a risk 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.

## Overall arrangements

**12** The Council's arrangements were largely unchanged from the previous year, although there is no longer a grants co-ordinator which may pose a risk going forward.

**13** For a number of the grants, the Council provides good quality working papers but could work to bring them all up to a common standard. Similarly, there is often limited evidence of review, which may have avoided some of the simpler errors we identified.

**14** The audit of the housing benefits claim has required less work this year, which has led to a decrease in the fee charged. This is due to fewer errors being identified, but also as a result of the co-operation and responsiveness of the housing benefits team.

## Specific claims

### Housing and council tax benefit subsidy claim

**15** Housing and council tax benefit subsidy is a complex area and it is common across councils for auditors to find errors from our detailed testing. I found a few errors this year, as set out below, but decided these were isolated instances and did not suggest any significant systemic problems with paying benefits or completing the claim itself.

- The net effect of the errors identified was to increase the £114million claim by £2,756. The errors related to the misclassification of expenditure.
- As one of the errors related to an underpayment of benefit to a claimant, I was required to qualify my report to the Department of Work and Pensions, to enable them to consider whether any action is necessary.

**16** However, the Council should recognise that this year's audit continues a trend of decreasing errors being found in the Council's subsidy claim.

### HRA subsidy claim.

**17** The figures for the average borrowing outstanding in 2010/11 and the capital financing requirement at 1 April 2011 were misstated by £40 million and £13 million respectively. Also, the average rate of interest payable in 2010/11 was misstated at 4.64% instead of 4.46%. The effect of these errors was the aggregate amounts of the amortised premium payable and receivable on or after April 1995 were misstated by £11,117 and £2,704 respectively. All errors identified above were corrected before we certified the claim.

# Appendix 1 Summary of 2010/11 certified claims

Table 1: **Claims and returns above £500,000**

Claim	Value £	Adequate control environment	Amended	Qualification letter	Audit fees 2010/11 (2009/10) £
Housing and council tax benefit	114,506,867	Not assessed	Yes	Yes	36,846 (42,807)
Pooling of Housing Capital Receipts	1,098,082	Yes	No	No	1,621 (1,941)
Sure Start, Early Years and Childcare	9,761,005	Yes	No	No	2,534 (793)
HRA subsidy	5,495,889	No	Yes	No	1,914 (2,244)
HRA subsidy base data return	No values (15,159 properties)	No	No	No	2,017 (3,165)
Disabled Facilities	630,000	Yes	No	No	1,741 (333)
NNDR	68,342,176	Yes	No	No	2,029 (3,045)
Teachers Pensions	11,017,065	Yes	No	No	2,339 (1,888)

Table 2: **Claims between £125,000 and £500,000**

Service [optional]	Claim	Value £	Amended
None			