

# **Certification of claims and returns - annual report**

**Portsmouth City Council**

**Audit 2011/12**

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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 have 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 2011/12 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 2011/12, my audit team certified five claims or returns with a total value of £212 million. The Council have amended errors identified by our work on four claims, one of which was also qualified
- 2** The qualification related to the underpayment of housing benefit in a limited number of cases rather than being the result of any systemic errors or control weaknesses. In such cases, the certification instruction requires us to issue a qualification letter.
- 3** The errors on the five claims arose from misclassification of expenditure and incorrect values being input to the claim.
- 4** The fees I have charged for the 2011/12 grant certification work total £53,688, which compares favourably to the estimated figure of £55,000 and the fee for 2010/11 of £52,159, in light of the additional testing required this year.

# Background

5 The Council claims £381 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; and
  - 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 one claim, Housing Revenue Account subsidy, where I judged it inappropriate to place reliance on the control environment. I didn't have significant concerns about controls weaknesses within the underlying financial system but there were a number of errors in the claim in the previous year.
- 9** My cyclical audit approach requires a full review of every claim at least once every three years. This did not apply to any claim in 2011/12.
- 10** 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

- 11** The Council's arrangements were largely unchanged from the previous year. There continues not to be a grants coordinator which may pose a risk in the future.
- 12** The Council generally provides good quality working papers but could work to bring them all up to a common standard. Similarly, as in prior years, there is often limited evidence of review, which may have avoided some of the simpler errors we identified.

## Fees

- 13** While the fees vary between claims across the years (see appendix 1), this is principally down to grade mix. The exception to this is the Housing and Council Tax Benefit Subsidy claim, which has required more work this year because of more complex errors being identified, and the requirement to undertake additional testing - see below for detail.

## Specific claims

### Housing and council tax benefit subsidy claim

**14** 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 £114 million claim by £2,150.

- Several of the errors related to the misclassification of expenditure, and the overpayment of benefit due to the incorrect income being entered or deduction applied.
- As two of the errors related to the underpayment of benefit to claimants, I was required to qualify my report to the Department of Work and Pensions, to enable them to consider whether any action is necessary.
- One instance of underpayment could have resulted in an overpayment in different circumstances. In line with the requirements of the approach, the authority undertook further testing of similar cases which I reviewed. This identified a small number of expenditure classification errors for which the claim has been amended.

**15** However, despite the errors found, I would like to highlight the positive and constructive relationship with the Council's benefits team. Their enthusiasm, cooperation and openness meant the audit was completed as efficiently as possible, mitigating the increased cost.

### HRA subsidy claim

**16** The figures for the capital financing requirement at 1 April 2011 and 1 April 2012 were misstated by £2 million and £800,000 respectively. The effect of these errors was the aggregate amounts of the amortised premium payable and receivable on or after April 1995 were misstated by £822 and £180 respectively. All errors identified above were corrected before we certified the claim.

### Pooling of Housing Capital Receipts

**17** The figure for the cost of buying back dwellings deducted from receipts was overstated by £92,781. The figure should only have included buy backs relating to previous years but incorrectly included 2011/12 buy backs. This arose from a change in regulations in 2012/13 and confusion around how the buy back reduction is to be reported. The effect of this error was a corresponding deduction in the total amount of allowable deductions, and a corresponding increase in the payment total for 2011/12.

## **National Non-Domestic Rates (NNDR)**

**18** The figure for rates payable in respect of previous years was understated by £259.18 because of the incorrect deferrals figure used in the calculation. The effect of this was to reduce the total contribution to the pool by the same amount.

## **Teachers' Pensions**

**19** One minor error was identified in that a field with a value of zero was left blank.



## Appendix 1 Summary of 2011/12 certified claims

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

Claim	Value £	Adequate control environment	Amended	Qualification letter	Audit fees 2011/12 (2010/11) £
Housing and council tax benefit	119,855,248	Not assessed	Yes	Yes	46,346 (42,948)
Pooling of Housing Capital Receipts	1,479,744	Yes	Yes	No	1,264 (1,889)
HRA subsidy	4,770,805	No	Yes	No	3,075 (2,231)
NNDR	76,146,582	Yes	Yes	No	1,454 (2,365)
Teachers' Pensions	10,057,251	Yes	No	No	1,549 (2,726)
Total					53,688 (52,159)

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

Service [optional]	Claim	Value £	Amended
None			

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