

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

16 April 2010

Report of: Strategic Director (Resources)

Title: Grant Thornton - 2008-09 Grants report

Ward: Citywide

Officer presenting report: Richard Powell, Chief Internal Auditor

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RECOMMENDATION

The Audit Committee note, and comment as appropriate, on the report issued by Grant Thornton.

Summary

In addition to its audit and inspection responsibilities, Grant Thornton, the Council's external auditor, is required to 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.

The Audit Commission requires auditors to report annually on the results of certification work to those charged with governance, in order to highlight the errors, adjustments and qualifications arising in claims and returns. This report summarises the outcomes of the certification work undertaken for 2008-09.

The significant issues in the report are:

- The Council has successfully reduced the number of claims subject to qualification. However, over half of all claims and returns continue to require amendment.

- Further action is required by the Council to address issues raised within those claims and returns subject to qualification. These are set out at paragraph 2.14 in the report.
- The percentage of original signed claims received by Grant Thornton by the Council's submission deadline has improved slightly but there is still scope for further improvement.

Policy

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the Local Government Act 1999 with regard to best value and inspection.

Consultation

Internal: The report has been discussed and circulated to the Service Director (Finance) and service finance managers.

External: None necessary

Grant Thornton's appointed auditor, John Golding, will be attending the Committee, and will be pleased to answer Members' questions.

Other Options Considered

Not applicable.

Risk Assessment

Not as a result of this report.

Equalities Impact Assessment

There are no issues arising from this report.

Legal and Resource Implications

None arising from this report.

Appendices:

Appendix 1: 2008-09 grants report

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None



Bristol City Council

Grants Report 2008-09

January 2010

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1 Executive summary

Introduction

- 1.1 The Council received nine grant claims and returns from government departments and other bodies requiring external audit certification in 2008-09, representing income in excess of £190 million.
- 1.2 Grant Thornton, as the Council's auditors of the Audit Commission, is 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.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters 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 A summary of all claims and returns subject to certification is provided at Appendix B, together with the certification fee and outcome of our review.
- 1.7 The key messages from our review are summarised in Exhibit One below, and set out in detail in the next section of the report.

Exhibit One: Key Messages

Aspect of certification arrangements	Action
Compared to 2007-08, the Council has successfully reduced the number of claims subject to qualification. However, over half of all claims and returns continue to require amendment.	The Council can further improve this performance through implementing the recommendations included at Appendix C.

Arrangements for certification:

- amounts claimed below £100,000 - no certification
- amounts claimed between £100,000 - £500,000 - agreement to underlying records
- amounts claimed over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Aspect of certification arrangements	Action
The percentage of original signed claims received by Grant Thornton by the Council's submission deadline has improved slightly but there is still scope for further improvement.	An original signed claim form should be sent to Grant Thornton's Bristol office by the deadline specified by the relevant Government department.
Opportunities for improvement have been identified in the Council's overall management arrangements, which can help the Council further reduce the claims subject to amendment or qualification.	The Council can strengthen management arrangements through implementing the recommendations included at Appendix C.
<p>Work is still required on the following claims and returns to address continuing qualification issues:</p> <ul style="list-style-type: none"> • Housing and Council Tax Benefits Scheme • Pooling of Housing Capital Receipts; and • Housing Revenue Account Subsidy Base Data return. 	The Council can address these issues through implementing the recommendations included at Appendix C.

The way forward

- 1.8 We have made a number of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will 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 and additional audit fees.
- 1.10 The new Use of Resources assessment in 2009 required auditors to consider the results of certification work when undertaking the Use of Resources assessment, including, in particular, the impact of housing benefit and council tax testing on data quality. The 2010 assessment will be further integrated with grant certification work, including consideration of the outcome of a wider range of grant claims.

Acknowledgements

- 1.11 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

January 2010

2 Detailed findings

Introduction

- 2.1 This section of the report summarises the main issues arising from the certification of grants and returns in 2008-09. Further details of the individual grants that have been certified are provided at Appendix B and the Action Plan at Appendix C sets out our recommendations and improvement opportunities arising from the certification of individual grants.

Performance against targets

- 2.2 Exhibit Two summarises the Council's performance against key certification performance targets for the nine claims and returns submitted for certification in 2008-09 compared to the same nine claims and returns in 2007-08 (excluding European Regional Development Fund claims):

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2008-09		Achievement in 2007-08		Direction of travel
		No.	%	No.	%	↑↓→
Number of claims submitted on time	100%	5	56%	4	44%	↑
Number of claims certified on time *	100%	8	90%	6	67%	↑
Number of claims amended by the auditor	0%	5	56%	5	56%	→
Number of claims qualified by the auditor	0%	3	33%	5	56%	↑

* the certification deadline is that prescribed by the grant paying body as advised by the Audit Commission, or if a claim is received after the submission deadline, within three months of receipt.

- 2.3 This analysis of performance against targets shows that:
- there has been an improvement in the quality of claims prepared for certification with a reduction in the number of claims qualified. However, as was the case for 2007-08, over half of the claims required amendment; and
 - the percentage of original signed claims received by Grant Thornton by the Council's deadline has improved slightly but there is still scope for further improvement. An original signed claim form should be sent to Grant Thornton's Bristol office by the deadline specified by the relevant Government department.

2.4 We charged a total fee of £49,170 against a budget of £140,000 for the certification of claims and returns in 2008-09. The actual fee charged is significantly lower as the planned fee was set out in the Audit & Inspection Plan which was issued before the 2007-08 certification work was undertaken and therefore based on the costs incurred through 2006-07 certification work. Since then:

- there has been a significant change in the certification approach to housing and council tax benefit. In 2007-08, the Audit Commission introduced a series of workbooks to make the certification and data recording for this claim consistent for all Councils in England; and
- there has been a reduction in the number of claims requiring certification. In addition, a number of claims are now no longer applicable to the Council.

Details of fees charged for specific claims are included within Appendix B.

Management arrangements

2.5 Good arrangements are required for successful management of the certification of grant claims and returns. The results of our review of aspects of the management arrangements in place are set out below. Associated recommendations for improvement are included at Appendix C.

Grants co-ordination

2.6 The Council generally has good arrangements in place to identify grant funding received, and the related claims or returns that require certification. These are prepared by finance staff within individual directorates, however, there is no overall grants coordinator in place. A central contact managing the submission of claims, would reduce the risk of not meeting required deadlines.

2.7 The Council should consider giving an individual responsibility for ensuring that all claims and returns requiring certification are identified and submitted by the specified deadline, as well as liaising with external audit regarding certification arrangements.

Quality of working papers

2.8 Working papers were available for all claims subject to certification, however the documentation is not of a consistently high standard. Incomplete working papers result in increased auditor time, and require additional officer time to address queries raised.

2.9 Working papers should be provided for each cell subject to certification, dated and referenced to the claim. Where possible, these should be provided electronically and alongside the claim at the time of submission for certification.

Submission procedures

2.10 In order to meet the Council's submission deadline an original, signed version of the claim form must be received by external audit by the deadline specified by the relevant government department. Missed deadlines can cause delays to certification and may result in penalties being imposed by the awarding body.

2.11 The Council should:

- centrally monitor submission of grant claims and returns to external audit to ensure compliance with grant deadlines; and
- ensure that the original, signed version of each claim form is received by Grant Thornton's Bristol office by the specified deadline.

Independent review

- 2.12 Whilst our work has identified some evidence of independent review on claims submitted for certification, this is not consistent for all returns received. Third party review can identify errors that may otherwise result in amendment or qualification as a result of our work.
- 2.13 Each claim form and its associated working papers should be subject to independent review by another officer prior to submission for certification. This review process should be evidenced on each working paper file provided to us for certification.

Significant findings in relation to individual claims and returns

- 2.14 A summary of all claims and returns we have certified is attached at Appendix B, together with the certification fee and outcome of our review.
- 2.15 Of the claims and returns submitted for certification the most significant findings were in relation to the following claims:
- Housing and Council Tax Benefits scheme;
 - Pooling of Housing Capital Receipts; and
 - Housing Revenue Account Subsidy Base Data return.
- 2.16 Recommendations for improvement are included at Appendix C.

Housing and council tax benefits scheme

- 2.17 Each section of this return contains an 'in-year reconciliation' cell to confirm that the total expenditure reported for each benefit type is supported by the analysis which follows it. Discrepancies were identified for the three housing benefit types and, although these differences were small, we were required to report them in a qualification letter. The 2007-08 claim was also qualified due to differences relating to the in-year reconciliation cells.
- 2.18 In order to avoid qualification in future years, the Council should seek to identify and resolve any discrepancies highlighted through the in-year reconciliation cells in advance of authority certification.

Pooling of Housing Capital Receipts

- 2.19 The return was not submitted to us by the authority deadline of 3 July 2009 and the return received was not certified by the Council's Chief Financial Officer prior to submission.
- 2.20 Councils are allowed to deduct administrative costs from the amount of housing receipts that should be pooled, where it can be demonstrated that there was a sufficient link between the costs being claimed and actual disposals. The Council calculated these costs based on the average amount of time housing officers spent on Right to Buy work over a three month period. However, the Council was unable to demonstrate that this time related only to completed disposals and administrative costs relating to abortive sales were also included in error.
- 2.21 The Council is continuing to develop a system for capturing the administrative costs relating to completed disposals only.
- 2.22 We also reported in a qualification letter that we were not provided with sufficient evidence to support the capital allowance used in the return. All new spending proposals affecting the capital allowance should be supported by evidence such as approved committee minutes.

- 2.23 Amendments were also required to this return as interest in respect of late payments had not been calculated and included in the return. In addition, an amendment was made so that the capital allowance deductions took account of the costs of administering disposals. The Council should ensure that the full requirements of the return are reviewed so that this is completed accurately and in accordance with all terms and conditions.

Housing Revenue Account Subsidy Base Data return

- 2.24 Councils are required to report details of their housing stock in this return annually so that subsidy entitlement for the next full financial year can be determined. Our testing identified a number of errors in the classification of individual properties within the Council's housing stock. The Council undertook further work in response to this and provided an amended claim using analysis taken from a different housing system. However subsequent testing of this updated analysis identified further errors.
- 2.25 The Council should review all dwellings recorded within the Keystone system to ensure that records are accurate and classifications of its housing stock are consistent with underlying information.
- 2.26 In addition, a spreadsheet is provided by Communities and Local Government (CLG) to calculate rental figures for three cells in the return. Whilst the Council calculated these entries using the required spreadsheet, the total number of dwellings listed in the spreadsheet did not agree to that reported in the base data return itself. As a reconciliation was not available, this was reported in a qualification letter. The Council should ensure that all data used in the 'Caps and Limits' spreadsheet provided by CLG is consistent with entries reported in the return itself.
- 2.27 The return also reports the estimated principal amount of loans outstanding at 1 April 2010 to enable a borrower to acquire a dwelling in the housing revenue account. The guidance requires this estimate to be based on the amount of principal outstanding at 1 August 2009 less estimated repayments to 31 March 2010. The Council calculated this based on that outstanding at 31 March 2009 less estimated repayments in 2009-10. The return was also qualified for this issue in 2007-08 and 2006-07. To avoid similar future qualifications, arrangements should be put in place to ensure that the principal outstanding as at 1 August each year is documented and used in the base data return.

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 £100,000 - no certification required;
- for amounts claimed above £100,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council; and
- for amounts claimed over £500,000 - certifying that the claim agrees to underlying records of the Council and an assessment of the control environment. Where reliance is not placed on the control environment, detailed testing is performed.

Roles and responsibilities

The following table sets out the roles and responsibilities of the parties involved in the certification of claims and returns.

Party	Role and responsibility
Grant paying body	Sets grant conditions and the deadlines for submission of the pre-certificated and certified claim
Audit Commission	Issues certification instructions
Council	Submits claims and returns to the Appointed Auditor within grant paying body submission deadlines. Ensures adequate documentation is maintained to support compilation of claims and returns.
Appointed Auditor	Certifies claims in accordance with Audit Commission instructions and within certification deadlines.

Scope

We assess the Council's arrangements for submission of grant claims for certification. We do not review the Council's wider arrangements for managing external funding or maximising its entitlement to external funding.

B Details of claims and returns certified in 2008-09

Ref	Claim	Claim value (£)	Amended? Y/N	Amendment value (£)	Qualified? Y/N	Budgeted fee (£)	Actual fee (£)
BEN01	Housing and Council Tax Benefits Scheme	172,256,855	Y	171 This had no overall effect on the amount of subsidy claimed.	Y		20,170
CFB06	Pooling of Housing Capital Receipts	12,137,760	Y	144,202 + 701 Overall effect was to increase the amount to be paid into the pool by £108,853	Y		2,925
EYC02	Surestart, Early Years and Childcare	14,753,570	N	Not applicable	N		3,498
HOU01	Housing Revenue Account Subsidy	(6,526,228)	N	Not applicable	N		2,835
HOU02	Housing Revenue Account Subsidy Base Data Return	Non-financial	Y	Non-financial	Y		7,160
HOU21	Disabled Facilities	882,000	N	Not applicable	N		1,255
LA01	National Non-Domestic Rates Return	163,490,317	N	Not applicable	N		3,938

Ref	Claim	Claim value (£)	Amended? Y/N	Amendment value (£)	Qualified? Y/N	Budgeted fee (£)	Actual fee (£)
PEN05	Teachers' Pensions Return	19,091,617	Y	65,746	N		3,455
				This was an adjustment to the contributory salary figure reported. However, it did not effect the return balance.			
RG03	New Deal for Communities	3,043,000	Y				3,935
TOTAL		360,037,506				140,000	49,170

C Action plan

Ref	Claim	Recommendation	Priority	Management response and implementation details
All schemes		The Council should consider giving an individual responsibility for ensuring that all claims and returns requiring certification are identified and submitted by the specified deadline, as well as liaising with external audit regarding certification arrangements.	Medium	<p>Management Response: An officer in the Corporate Finance Team has carried out a similar role in the past, however this has not been maintained since the change in external auditors.</p> <p>It is agreed that discussion with the external auditor should take place to clarify this role going forward, particularly in the light of the significant reduction in the number of claims audited.</p> <p>However, the ultimate responsibility for meeting submission deadlines and ensuring that adequate supporting papers are provided is the responsibility of the relevant Finance Business Partner.</p> <p>Responsible officer: David Miles Implementation date: April 2010</p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
	All schemes	Supporting papers should be provided for each cell subject to certification, dated and referenced to the claim. Where possible, these should be provided electronically and alongside the claim at the time of submission for certification.	Low	<p>Management response: Directorates and other responsible officers will be advised/reminded of these requirements. Consideration will be given to amending the grant claim checklist which is signed off by the Finance Business Partner in each case.</p> <p>Responsible officer: David Miles</p> <p>Implementation date: April 2010</p>
	All schemes	Council should centrally monitor submission of grant claims and returns to external audit to ensure compliance with grant deadlines.	High	<p>Management response: As above</p> <p>Responsible officer: As above</p> <p>Implementation date: As above</p>
	All schemes	Council should ensure that the original signed version of each claim form is received by Grant Thornton's Bristol office by the specified deadline.	High	<p>Management response: Finance Business Partners will be reminded of this requirement.</p> <p>Responsible officer: Finance Business Partners</p> <p>Implementation date: April 2010</p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
	All schemes	claim form and its associated working papers should be subject to independent review by another officer prior to submission for certification.	Medium	Management response: This is already in place: the detailed grant claim checklist is certified by the relevant Finance Business Partner prior to the claim being signed off by the Service Director, Finance. Responsible officer: N/A Implementation date: N/A
	All schemes	Council should ensure that the full requirements of grant are reviewed so that each claim is completed accurately and in accordance with terms and conditions.	Medium	Management response: As response to previous item. Responsible officer: N/A Implementation date: N/A
BEN01	Housing and Council Tax Benefits Scheme	Council should seek to identify and resolve any discrepancies highlighted through the in-year reconciliation cells in advance of authority certification.	Medium	Management response: recommendation accepted. Responsible officer: Simon Bowker Implementation date: With immediate effect.
CFB06	Pooling of Housing Capital Receipts	The Council should continue to develop the system for capturing the administrative costs relating to completed disposals only.	High	Management response: Development of an acceptable system to capture administrative costs will continue. Responsible officer: Paul Milliner, Neighbourhoods Finance Team Implementation date: 30 June 2010

Ref	Claim	Recommendation	Priority	Management response and implementation details
CFB06	Pooling of Housing Capital Receipts	All new spending proposals affecting the capital allowance should be supported by evidence such as approved committee minutes.	High	<p>Management Response: All spending budgets alongside the respective sources of finance are approved annually by the Director and Executive Member : supporting evidence will be provided for future returns</p> <p>Responsible officer: Louise Church, HRA Finance Team Manager</p> <p>Implementation date: Immediate</p>
HOU02	Housing Revenue Account Subsidy Base Data Return	The Council should review all dwellings recorded within the Keystone system to ensure that records are accurate and classifications consistent with underlying information.	High	<p>Management Response: A substantial amount of work is being undertaken by the Asset Management Team to ensure that the Keystone data is correct.</p> <p>Responsible Officers: Julie Dart Asset Management and Marcus Venn, HRA Accountant</p> <p>Implementation date: 31 May 2010</p>
HOU02	Housing Revenue Account Subsidy Base Data Return	The Council should ensure that all data used in the 'Caps and Limits' spreadsheet provided by CLG is consistent with entries reported in the return itself.	High	<p>Management Response: We will ensure that the data is consistent</p> <p>Responsible officer: Marcus Venn, HRA Accountant</p> <p>Implementation date: 31 August 2010 (the date the next relevant Return is due)</p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
HOU02	Housing Revenue Account Subsidy Base Data Return	Arrangements should be put in place to ensure that the principal outstanding as at 1 August each year is documented and used in the base data return.	High	<p>Management Response: The HRA Finance Team will liaise with the Corporate Finance Team in order to ensure that future returns include data as at 1 August each year</p> <p>Responsible officer: Marcus Venn, HRA Accountant</p> <p>Implementation date:</p>
PEN05	Teachers' Pensions Return	The Council should ensure that all information received from the Teachers' Pensions Agency is reviewed and reconciled with Council records, with any discrepancies reported to the Teachers' Pensions Agency.	Medium	<p>Management response: we will undertake to ensure all that all additional contribution data will be checked against the schedule and original documentation</p> <p>Responsible officer: Jayne Jarrett, Payroll Services</p> <p>Implementation date: June 2010</p>



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