

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

28 January 2011

Report of: Strategic Director - Corporate Services

Title: Grant Thornton - 2009-10 Certification Work 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, undertake certification work on grant claims and returns, acting as an agent of the Audit Commission. 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 2009-10.

The significant issues in the report are:

- The Council has successfully reduced the number of claims subject to qualification, and the number subject to amendment. However, a third of claims and returns continue to be qualified.

- Further action is required by the Council to address issues raised within those claims and returns subject to qualification. These are set out from paragraph 2.11 in the report.
- There remains scope for the Council to improve the submission of claims and returns within the relevant deadline set by the grant paying body.

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: 2009-10 Certification work report

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Certification work report 2009-10

January 2011

Contents

1	Introduction and approach	1
2	Results of our certification work	3

Appendices

A	Details of claims and returns certified for 2009-10	6
B	Action plan	10

1 Introduction and approach

Introduction

- 1.1 Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As Bristol City Council's (the Council) external auditors, Grant Thornton undertakes certification work at the Council, acting as an agent of the Audit Commission.
- 1.2 The Audit Commission makes certification arrangements with grant-paying bodies, this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

Certification arrangements

- 1.3 The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2009-10 were:
 - for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions;
 - for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but were not required to undertake any testing of the eligibility of expenditure or data; and
 - for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.
- 1.4 In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work.

Our certificate

1.5 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).

1.6 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.

2 Results of our certification work

Key messages

- 2.1 For the financial year 2009-10, we have certified nine claims and returns for the Council, which amounted to a value of £429 million. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.
- 2.2 The Council's performance in preparing claims and returns is summarised in the table below.

Exhibit One: Performance against key certification targets

Performance measure	2009-10	2008-09	Direction of travel
Without qualification	5	4	↑
Amended only	1	2	↑
Qualified only	1	0	↓
Amended and qualified	2	3	↑
Total	9	9	

- 2.3 This demonstrates that overall the Council's performance in preparing claims and returns has improved since 2008-09, with an increase in the number without qualification and a reduction in the number subject to amendment. However, a third of claims and returns continue to be qualified.
- 2.4 Details of the certification of all claims and returns are included at appendix A. Where we have concluded that an item is significant, further details are included in this section of our report.
- 2.5 Where claims and returns have been amended or qualified and we have identified opportunities for improvement in the compilation in future years, we have made recommendations to support the Council's continuous improvement. These are included in the action plan at appendix B.
- 2.6 The Council's and our performance in meeting deadlines related to the certification of claims and returns is summarised in exhibit two.

Exhibit Two: Performance against deadlines

Deadline	2009-10	2008-09	Direction of travel
Submitted by deadline	5	5	→
Certified by deadline	9	8	↑

2.7 Although arrangements for some specific claims and returns have improved, there continues to be scope for the Council to improve the submission of claims and returns within the relevant deadline set by the grant paying body. However, it is noted that two of these returns were submitted within three days of the deadline. We certified all of the claims and returns within the relevant deadlines set by the Audit Commission.

Certification work fees

2.8 Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Exhibit Three: Hourly rates for certifying claims and returns for 2009-10

Role	2009-10	2008-09
Engagement lead	£325	£310
Manager	£180	£170
Senior auditor	£115	£110
Other staff	£85	£80

2.9 Our fee for certification work at the Council in 2009-10 was £52,890, compared to £49,170 for 2008-09. Our fee is below our estimate of £70,000 included in our audit fee letter presented to the Audit Committee in April 2009. This is because the estimate was made before the 2008-09 certification work was undertaken and therefore based on the costs incurred through 2007-08 certification work. Details of our fee by claim and return and how this compares to last year are included at appendix A.

2.10 The fees for five claims and returns reduced in spite of the increase in fee rates, and the only significant increase being in relation to the housing and council tax benefit scheme.

Significant issues

2.11 We identified significant issues in relation to the following claims and returns:

- housing and council tax benefits scheme;
- housing revenue account subsidy and

- housing revenue account subsidy base data return.

Housing and council tax benefits scheme

- 2.12 The housing and council tax benefit subsidy claim requires overpayments to be analysed into different categories relating to the cause of the overpayment, with the different categories attracting different rates of subsidy. Our testing identified rent allowance and council tax overpayments that had been incorrectly classified by the Council in the subsidy claim. Additional testing identified further errors, resulting in qualification of the claim. The Council should consider whether further training should be provided to staff processing benefit overpayments to enable them to correctly determine the reason for each overpayment and ensure accurate coding for subsidy purposes.

Housing revenue account subsidy

- 2.13 Councils claim housing revenue account (HRA) subsidy from Communities and Local Government (CLG) through the annual HRA subsidy claim. Our work identified that the capital financing requirement used in the subsidy claim was not consistent with that reported in the 2009-10 Statement of Accounts. An amendment of £12 million was made to the claim, affecting the subsidy entitlement by £102,000. The Council should ensure that information used in the subsidy claim is consistent with the final figures in the Statement of Accounts.

Housing revenue account subsidy base data return

- 2.14 Councils are required to report details of their housing stock in this annual return to enable CLG to determine their subsidy entitlement for the next full financial year. The HRA subsidy base data return was qualified in 2007-08 and 2008-09 because the Council was not able to support the classification of its housing stock between the categories required on the return. Our initial testing this year identified an error in the classification of flats as low, medium or high rise. Following a review of all flat classifications by the Council, the claim was amended.
- 2.15 The return also reports the estimated principal of loans outstanding at 1 April 2011 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 2010 less estimated repayments to 31 March 2011. The Council calculated this based on that outstanding at 31 March 2010 less estimated repayments in 2010-11. The return was also qualified for this issue in 2008-09, 2007-08 and 2006-07. To avoid similar qualification in future years, 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.

Acknowledgements

- 2.16 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 2011

A Details of claims and returns certified for 2009-10

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09 *
Housing and council tax benefit scheme	202,890,825	Qualified	<p>We certified that the claim was fairly stated and in accordance with terms and conditions, except for qualification in relation to:</p> <ul style="list-style-type: none"> • identification of rent allowance and council tax benefit overpayment classification errors, as detailed in paragraph 2.12 of this report; and • in-year reconciliation discrepancies for HRA rent rebates and rent allowances. <p>In addition, for nineteen rent allowance cases, we were unable to evidence that the rent was being paid by the claimant. The Council has stated that it is not required to request this evidence from claimants. We understand that this is a national issue which has been raised with the Department for Work and Pensions by the Audit Commission. As such, we reported on this issue but did not undertake additional testing.</p> <p>The fee increase is due to the additional work undertaken in relation to the amendments and qualification issues set out above. However, it is still 15% below the median fee for all Councils for 2008-09.</p>	24,335	20,053
Pooling of housing capital receipts	11,734,342	Without qualification	<p>We certified that the return was fairly stated and in accordance with terms and conditions. The fee has reduced due to the improvements made from previous years, following qualification in both 2007-08 and 2008-09.</p>	2,590	2,808

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09 *
Sure start, early years and childcare and Aiming high for disabled children grant	16,770,881	Without qualification	We certified that the return was fairly stated and in accordance with terms and conditions.	3,042	3,380
HRA subsidy	4,130,463	Amended	We certified that the claim was fairly stated and in accordance with terms and conditions, following an amendment to ensure that entries in the claim were consistent with the 2009-10 Statement of Accounts. The fee increase is due this amendment being required to the 2009-10 HRA subsidy claim.	3,255	2,718

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09 *
HRA subsidy base data return	Non-financial	Amended and qualified	<p>We certified that the base data return was fairly stated and in accordance with terms and conditions, except for qualification in relation to the calculation of the estimated principal outstanding on HRA mortgages.</p> <p>In addition, the return was amended:</p> <ul style="list-style-type: none"> • to reflect the actual rate of interest charged by the Council on 1 August 2010 to enable borrowers to acquire a HRA dwelling; • to correct the classification of flats as low, medium or high rise; • to ensure that the total value of rent agreed to the rental system; and • to correct a classification error of capital receipts as proceeds from qualifying disposals. <p>Although they did not affect the base data return, a small number of other classification discrepancies were identified between the return and the housing stock system and a recommendation to address these issues is included in appendix B. The certification fee could be significantly lower if these matters are resolved.</p>	6,917	7,043
Disabled facilities	948,000	Without qualification	We certified that the return is in accordance with underlying records.	1,149	1,140
National non-domestic rates return	171,870,516	Without qualification	We certified that the return was fairly stated and in accordance with terms and conditions.	4,019	3,822

Claim or return	Value (£)	Certificate	Summary	Fee (£) 2009-10	Fee (£) 2008-09 *
Teachers' pensions return	19,086,063	Amended and qualified	We certified that the return was fairly stated and in accordance with terms and conditions, except for qualification due to a lack of documentation to provide assurance over the value of short term pensions paid by the Council in 2009-10. An amendment was also made to the total contributory salary, although this did not effect the balance with Teachers' Pensions.	2,730	3,338
New deal for communities	1,992,961	Without qualification	We certified that the return was fairly stated and in accordance with terms and conditions. Although, the supporting schedules were amended, no amendments were required to the Statement of Grant Usage itself.	3,773	3,818
Cost of reporting to those charged with governance	-	-		1,080	1,050
Total	429,424,051			52,890	49,170

*The 2008-09 certification fees are restated to separately analyse the cost of reporting to those charged with governance, which was previously allocated to each claim and return.

B Action plan

Claim or return	Recommendation	Priority	Management response & implementation details
All schemes	The original signed version of each claim or return should be received by Grant Thornton's Bristol office by the deadline specified by the grant paying body.	High	<p>Management response Agreed. Relevant Finance Business Partners will be asked to ensure these requirements are met.</p> <p>Responsible officer Directorate finance officers as appropriate</p> <p>Implementation date Claims & returns due in 2010/11</p>
Housing and council tax benefit scheme	Staff processing benefit overpayments should receive regular training enabling them to correctly determine the reason for each overpayment and ensure accurate coding for subsidy purposes.	High	<p>Management response All processing staff to be issued with an online training manual by end of January 2011. Further formal training also to be provided to all processing staff by the end of March 2011. Awareness sessions relating to both debt profile and subsidy to be held by the end of February 2011.</p> <p>Responsible officer Lee Sheen & Paula Jenner</p> <p>Implementation date January – March 2011</p>

Claim or return	Recommendation	Priority	Management response & implementation details
HRA subsidy	The Council should ensure that the final version of calculations used in the Statement of Accounts is that used for HRA subsidy purposes.	Medium	<p>Management response The HRA & Corporate Finance teams will work together to ensure the correct figures are used.</p> <p>Responsible officer Marcus Venn</p> <p>Implementation date Date of next claim September 2011</p>
HRA subsidy base data return	The Council should review all dwellings within the Keystone housing stock system to ensure that records are accurate and classifications for the base data return are consistent with underlying records.	Medium	<p>Management response A substantial amount of work has already been undertaken by the Management Team to correct inconsistencies. This is ongoing. The HRA Finance Team will undertake a further sample to ensure that records are accurate.</p> <p>Responsible officer Julie Dart and Marcus Venn</p> <p>Implementation date Date of next return August 2011</p>

Claim or return	Recommendation	Priority	Management response & implementation details
HRA subsidy base data return	Arrangements should be put in place to ensure that the principal outstanding on HRA mortgages as at 1 August each year is documented and used in the base data return.	High	<p>Management response In the past it has not been possible to use data as at 1 August because we are only provided with this data at year end. The HRA team will consult with Mortgage colleagues to see if this can be provided by 1 August.</p> <p>Responsible officer Marcus Venn</p> <p>Implementation date Date of next return August 2011</p>

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