

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

18 January 2013

Report of: Strategic Director (Corporate Services)

Title: Grant Thornton Certification Work Report 2011-12

Ward: Citywide

Officer presenting report: Melanie Henchy-McCarthy and Alison Mullis, Chief Internal Auditor

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RECOMMENDATION

The Audit Committee note, and comment as appropriate, on Grant Thornton's report.

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 2011-12.

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: Grant Thornton consulted with Officers of the Council before finalising the report.

External: not applicable.

1 Introduction

- 1.1 Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As Bristol City's external auditors, Grant Thornton undertakes certification work at the Council, acting as an agent of the Audit Commission.
- 1.2 Grant Thornton, responsible for the City Council's certification of claims and returns 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: Grant Thornton's Certification Work Report 2011-12

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Certification work report 2011/12

January 2013

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1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify claims and returns 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.
- 1.2 We have certified five claims and returns for the financial year 2011/12 relating to expenditure of £431 million.
- 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 and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	Two claims were not submitted on time to audit (40% of the total number). All claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	<p>There is only one significant matter arising from our certification of claims and returns. The housing and council tax benefits scheme was certified as amended and subject to qualification.</p> <p>In addition the pooling of housing capital receipts return and the Housing Revenue Account Subsidy were amended without qualification.</p>
Supporting working papers	<p>Supporting working papers for the majority of claims and returns were good, which enabled certification within the deadlines.</p> <p>The qualification of the housing and council tax benefits scheme resulted from the insufficient reporting capability of the benefits software.</p>

The way forward

- 1.7 We have made two recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.8 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 fees.

Acknowledgements

- 1.9 We would like to take this opportunity to thank the grant claim co-ordinator and Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

January 2013

2 Results of our certification work

Key messages

- 2.1 We have certified five claims and returns for the financial year 2011/12 relating to expenditure of £431 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		5		8		
Number of claims submitted on time	100%	3	60	5	62.5	↓
Number of claims certified on time	100%	5	100	8	100	→
Number of claims certified with amendment	0%	2	40	2	25	→
Number of claims certified with qualification	0%	1	20	1	12.5	→

- 2.3 This analysis of performance shows that:
- The number, and percentage, of claims and returns submitted on time to audit has fallen.
 - The number, and percentage, of claims and returns requiring amendment has remained the same in total number but has increased in percentage terms.
 - The number of claims and returns requiring qualification is consistent with the prior year, but as a percentage of overall claims and returns performance has deteriorated.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.

- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.
- 2.6 We charged a total fee of £39,269 against an indicative budget of £50,000 for the certification of claims and returns in 2011-12. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

- 2.7 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

Housing and council tax benefits scheme

- 2.8 During our certification work, the only claim in which qualification issues were identified was the housing and council tax benefits subsidy claim. For this claim, we are required to test a random sample of 20 cases for each of the four benefit types awarded by the Council. If we identify errors in these initial samples, further work is required to be undertaken.
- 2.9 Our initial testing of rent allowance rent rebates (tenants of HRA properties) identified one case where the incorrect incapacity benefit rate had been applied, leading to underpaid benefit paid of £53.82. The Council could not identify those cases where incapacity benefit had been specifically awarded in the audit year due to insufficient reporting capability of the benefits package. As the nature of the error could equally result in an overpayment, testing of an additional random sample of 40 cases was performed. The additional testing did not identify any further errors.
- 2.10 Our initial testing of council tax benefit expenditure attracting full-rate subsidy which is not otherwise separately disclosed identified one case where JSA was being received but passported benefit had not been applied, leading to underpaid benefit of £15.36. The Council could not identify those cases where JSA had been specifically awarded in the audit year due to insufficient reporting capability of the benefits package. As the nature of the error could equally result in an overpayment, testing of an additional random sample of 40 cases was performed. The additional testing did not identify any further errors.

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 £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

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).

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.

Certification fees

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.

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	223,186,395.00	Y	166,090.00	Y	21,883	27,066	
National non-domestic rates return	189,600,373.37	N	N/a	N	3,445	4,118	
Teachers' pensions return	18,669,447.56	N	N/a	N	2,971	3,449	
Pooling of housing capital receipts return	6,481,967.44	Y	(853.00)	N	3,388	1,865	
Housing revenue account subsidy	(7,391,922.00)	Y	1,543.95	N	1,988	2,771	
Sure start, early years and childcare and Aiming high for disabled children grant					3,430	-	No audit required in 2011/12
HRA Finance base data return					4,033	-	No audit required in 2011/12
Disabled facilities					2,610	-	No audit required in 2011/12
Total	430,546,261.37		165,237.00		44,738	39,269	

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
BEN01	<p>There were a number of errors identified as part of the 40+ testing carried out in the Housing Benefits claim. Whilst errors are expected the high rate of approximately 40% of all cases reviewed is not. The Council should look at ways of improving the quality review process to ensure that the number of errors, and therefore amendments to case files, are reduced</p>	M	<p>As a result of this Audit it has been recognised that we as a Service need to formulate an Action Plan to ensure that the rate of error and subsequent amendment of cases is reduced. Work is now being undertaken on the development and production of Desk Aids to assist processors deal with the more complicated areas of assessment to include the correct identification and coding of subsequent overpayment cases. Alongside this the Service is planning to continue with a monthly trend analysis to identify training needs, prepare and deliver mandatory training to those officers who need further support.</p> <p>We are committed to fully review the current Quality Control process, this will include, trend analysis, staffing structures, processes, procedures, and feedback.</p> <p>Full details of the above measures will be forwarded to you for comment</p>
BEN01	<p>Two errors from initial testing could not be fully addressed as the software system could not drill down to sufficient detail. The Council should look at ways in which this information can be obtained either through software updates or through other means</p>	L	<p>Discussions are currently taking place with our software suppliers to identify the barriers that are preventing the full analysis of individual claims</p>

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