

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

**Carlisle City Council**

**Audit 2009/10**

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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to its auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## **Certification of claims**

- 1** Carlisle City Council receives more than £35 million funding from various grant paying departments. The Council is also responsible for collecting National Non Domestic Rates (NNDR) of more than £34 million. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2** In 2009/10, my audit team certified five claims and returns with a total value of over £69.1 million. Of these, we carried out a limited review of two claims and a full review of three claims. (Paragraph 10 explains the difference.) We amended two claims. We were unable to fully certify two claims and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary. This is an improved position on 2008/09 when we amended four claims and issued qualification letters for each.
- 3** The fees I charged for grant certification work in 2009/10 were £39,515.

## Significant findings

4 The Council's arrangements for managing claims and returns improved in 2009/10. As a result, there was a reduction in the number claims we amended or reported on. However, there is scope to improve further by:

- strengthening the management of single programme claims to ensure compliance with grant conditions and to minimise errors'; and
- ensuring all benefits assessors are clear about which dates to use for change of circumstance in order to minimise the payment of incorrect benefits.

## Certification fees

5 Our assessment of the control environment has allowed us to reduce testing of the National Non Domestic Rates return. This helped reduce our fees for 2009/10.

## Actions

6 Appendix 2 summarises my recommendations. The relevant officers of the Council have agreed these recommendations.

# Background

**7** The Council claims over £35 million for specific activities from grant paying departments. The Council is also responsible for collecting National Non Domestic Rates for the government of more than £34 million. As grant income is significant to the Council it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim or return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

**8** We are 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 Carlisle City Council. We charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**9** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**10** The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification 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 expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. 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 of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- 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 amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**11** We relied on the control environment for our work on the NNDR return and the Carlisle Renaissance Year 1 Action Plan single programme claim.

**12** The certification arrangements agreed with the Department of Work and Pensions do not allow us to rely on the control environment in certifying the housing benefit and council tax benefit claim. We are required to complete detailed testing.

**13** We did not rely on the control environment for the single programme claims for Carlisle Renaissance Core Costs and the Land at Durranshill Industrial Estate, Carlisle. This was because:

- previous work on the Carlisle Renaissance Core Costs claim identified payments wrongly included in claims as they were paid after 31 March deadline (nearly £40,000 in 2007/08 and over £133,000 in 2008/09); and
- Durranshill Industrial Estate, Carlisle was a new claim in 2009/10 and we had already identified that nearly £56,000 had been wrongly included in claim but related to the next year.

## Specific claims

**14** For claims with significant amendments or qualification I set out below the findings and actions necessary to improve future performance.

### Housing benefit and council tax benefit claim

**15** For the housing benefit and council tax benefit claim we tested an initial sample of 61 individual cases for 2009/10. Where errors are identified in the initial sample another sample of 40 cases must be tested for the error identified. Errors in the initial sample of cases meant we needed to undertake additional testing in three areas. We also identified issues on modified schemes and uncashed cheques and needed to do further work. In most cases the Council's own staff did the additional testing and we confirmed the findings by undertaking some re-performance. This approach is consistent with the agreement between the Audit Commission and DWP and helps to reduce the overall costs of certifying the claim.

**16** We issued a qualification letter on the housing benefit and council tax benefit claim because of errors in the initial sample and to report the outcome of additional testing of individual cases. The main issue reported was that testing of council tax benefit and rent allowances identified cases where the Council had not actioned a change in circumstances from the correct date. This led to incorrect payment of benefit. We also reported on the treatment of uncashed cheques.

## Recommendation

**R1** The Council should ensure that benefits assessors are clear about which dates to use for changes in circumstances.

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### Single programme claims

**17** The Land at Durrhill Industrial Estate, Carlisle claim was completed on the basis of expenditure incurred rather than payments made during the year. Demolition costs of £55,641.17 were paid on 19 April 2010, after the 31 March 2010 deadline.

**18** There were two minor arithmetical errors on the Carlisle Renaissance Core Costs claims. These errors occurred even though the claim had been checked by Authority staff and Internal Audit before submission to us for audit.

## Recommendations

**R2** Ensure only payments made in the year are included in the relevant single programme claim.

**R3** Ensure that all single programme claims are arithmetically correct before submission for audit.

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## Appendix 1 Summary of 2009/10 certified claims

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

Claim	Value £	Adequate control environment	Amended	Qualification letter
National Non Domestic Rates (NNDR)	34,085,771	Yes	No	No
Housing Benefit and Council Tax Benefit	32,425,277	N/A	Yes	Yes
Single programme – Carlisle Renaissance Core Costs	1,047,541	No	Yes	No
Single Programme – Land at Durrhill Industrial Estate, Carlisle	1,518,228	No	No	Yes
Single Programme – Carlisle Renaissance Year 1 Action Plan <sup>i</sup>	28,250	Yes	No	No

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

There were no claims audited in 2009/10 within this category.

<sup>i</sup> This is the amount of grant claimed in 2009/10 for a claim spanning more than one year. The financial limits above relate to the amounts claimed over the life of the claim and testing is applied accordingly.

## Appendix 2 Action Plan

### Recommendations

#### Recommendation 1

The Council should ensure that benefit assessors are clear about what dates to use for change of circumstances.

<b>Responsibility</b>	Performance Manager – Revenues and Benefits Shared Service
<b>Priority</b>	High
<b>Date</b>	1 March 2011
<b>Comments</b>	Training is provided periodically to Assessment Officers to refresh awareness of the appropriate effective dates to be used for changes of circumstances. Quality checking of assessments, through the Performance Team and feedback received by Team Leaders, will identify errors and these will be used to give one-to-one training to the relevant assessors as required. Where trends or common errors occur, these will be used to provide guidance notes, desk aids and as the basis of future training sessions to appropriately tackle the cause of such errors.

#### Recommendation 2

Ensure only payments made in the year are included in the relevant single programme claim.

<b>Responsibility</b>	Economic Development Manager
<b>Priority</b>	High
<b>Date</b>	31 March 2011
<b>Comments</b>	Within the ongoing transformation of the Economic Development Directorate there will be a clearly identified programme management role to support officers that are developing projects. This will include close working with those officers to ensure that grant drawdown requirements of external funding streams are fully understood and adhered to.

#### Recommendation 3

Ensure that all single programme claims are arithmetically correct before submission for audit.

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	High
<b>Date</b>	31 May 2011
<b>Comments</b>	Financial Services staff will quality check all documentation to ensure the claims are arithmetically correct before the Audit Commission commence their annual review.

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