



## **Burnley Borough 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 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.
- 1.2 We have certified 2 claims and returns for the financial year 2011/12 relating to expenditure of £71 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 It should be noted that all work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditors work.
- 1.7 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
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Submission and certification	The claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Overall the Council is performing well, however we were required to issue a qualification letter in respect of the Housing and Council Tax Benefit claim. Further details of this are set out below in section 2.
Supporting working papers	Supporting working papers for claims and returns were good, which enabled certification within the deadlines.

#### 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 fees.

#### Acknowledgements

- 1.10 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 2 claims and returns for the financial year 2011/12 relating to expenditure of £71 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.	%	
<b>Total claims/returns</b>		2		6		
Number of claims submitted on time	100%	2	100	6	100	→
Number of claims certified on time	100%	2	100	6	100	→
Number of claims certified with amendment	0%	0	0	1	16	↑
Number of claims certified with qualification	0%	1	50	0	0	↓

- 2.3 This analysis of performance shows that:
- We were required to issue a qualification letter in respect of the Housing and Council Tax Benefit claim in 2011/12. We did not need to do this in 2010/11. Details of the qualification issues are set out below.
- 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 Your previous auditors, the Audit Commission, charged a total fee of £19,218 against an indicative budget of £27,000 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:

#### **Certification of National Non Domestic Rates (NNDR) claim**

- 2.8 We identified that operational procedures for writing off NNDR outstanding balances are not in line with the requirements within the Council's Standing Orders for writing off balances.

#### **Certification of the Housing and Council Tax Benefit claim**

- 2.9 Testing of the initial sample of Council Tax Benefit expenditure identified one case where single persons discount had not been applied for part of the period. We tested a further 40 cases and identified one further error. Because the error is not isolated we extrapolated the error which indicated that subsidy claimed was overstated by £79,564.
- 2.10 Initial testing of Rent Allowances identified 4 cases here benefit had been underpaid The underpayment occurred as a result of National Insurance contributions not being deducted from gross earnings. As there is no entitlement to subsidy for benefit which has not been paid, this does not directly impact on the subsidy claimed.
- 2.11 Our testing of cell 94 Rent Allowances, identified 7 cases with rounding errors of between £0.08 and £0.11 on the calculation of net weekly earnings for self-employed claimants over the earning threshold. The rounding error is due to an error in the system calculation. We understand that this is being investigated by the software provider who expects to issue a software update shortly to rectify the error.

## 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.

<b>Role</b>	<b>2011/12</b>	<b>2010/11</b>
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	45,660,430	No	N/A	Yes	24,149	16,823	
National non-domestic rates return	25,279,989	No	N/A	No	1,663	2,395	
Other:							
Disabled Facilities grant	N/A	N/A	N/A	N/A	1,302	N/A	
Single Program	N/A	N/A	N/A	N/A	3,750	N/A	
<b>Total</b>	<b>70,940,419</b>		<b>N/A</b>		<b>30,864</b>	<b>19,218</b>	

## C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
NNDR	Ensure operational procedures for writing off outstanding NNDR balances align with Standing Order requirements.	H	<p>The current system is that write offs for NNDR are input as identified during the year. At year end, these are printed off into classes and approval is obtained from the various officers in accordance with the write off policy. This system is robust, efficient, subject to internal audit scrutiny and has not caused issues to date.</p> <p>The Council will adjust the write off policy to read the NNDR write offs will be carried out on an annual basis . At the time the Council is required to adjust the accounts in respect of write off i.e. early April, all required authorisations will have been obtained and forwarded to internal audit for checking. Any balance not authorised will have been written back onto the system before this date/year end. Financial procedure rules will be updated to remove the word 'prior' from D4.14</p>

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
<p>Housing and Council Tax Benefit</p>	<p>Ensure all cases of single occupancy are identified and the appropriate discount applied.</p>	<p>H</p>	<p>The Council wrote to the DWP on 28th November making representations that they were keen to do further work on this. This was accepted by the DWP on 30<sup>th</sup> November.</p> <p>Officers have completed an action plan which includes:-</p> <ol style="list-style-type: none"> <li>1. Correcting all affected cases</li> <li>2. Procured system enhancement so these cases are highlighted on system error reports in future</li> <li>3. Staff refresher training</li> <li>4. Liability matches written into staff accuracy checking</li> <li>5. Civica workflow updates to remind about weekly liability checks.</li> </ol> <p>The DWP have asked that our auditors complete some further work around this issue as part of their audit of the 2012/13 claim. Any required adjustments to subsidy will be reflected in the subsidy claim for 2012/13.</p>

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
	<p>Ensure national insurance contributions are correctly deducted from gross earnings on rent allowances cases.</p>	<p>H</p>	<p>There are two issues with national insurance contributions. In some cases, notional National Insurance is not being calculated because the class 2 and class 4 fields were not selected or were selected and the calculator removed the indicator. The relevant cases here will be corrected.</p> <p>The second issue is a known Northgate issue, National Insurance is calculated over 366 days rather than 365. Northgate are aware of this, and intend to fix it. This is still outstanding as no fix date has been scheduled by them to date.</p>

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