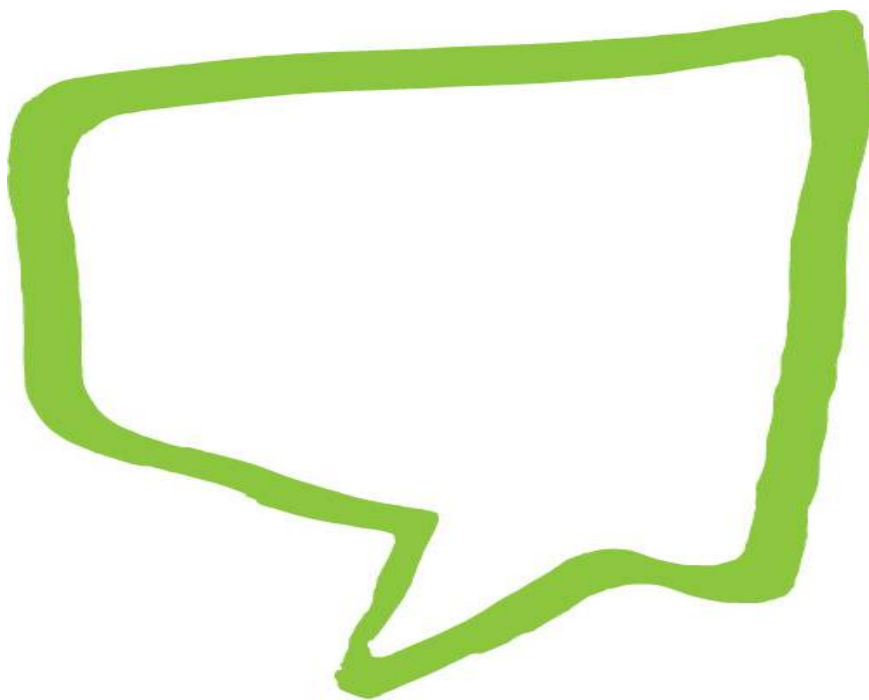


Certification of Claims and Returns - Annual Report

Southampton City Council

Audit 2008/09

February 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

Funding from government grant-paying departments is an important income stream for the Council and therefore it needs to manage its process for claiming this income carefully and demonstrate to auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of the Council's 2008/09 claims and returns. It includes the messages arising from our assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

- 1 The Council received £103.5 million funding in 2008/09 from various grant-paying government departments which required auditor certification. We were also required to certify four returns made by the Council to departments which did not involve the receipt of funds, including the £87.4 million collected in National Non-Domestic Rates and remitted to the national pool. Departments attach conditions to the grants that are made and the Council must be able to show that it has met these conditions or the funding may 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 2008/09, we certified five claims and four returns which had a total value of £203.6 million. Of these, three involved limited audit testing and six involved more extensive audit testing. Paragraph 8 explains how we determine the level of testing to perform. We agreed amendments with officers for errors identified in one of the returns and four of the claims that were certified. For two of the claims we issued a qualification letter to the grant-paying department. Appendix 1 summarises the results for each of the returns and claims that were certified.

Significant findings

- 3 There are no significant issues arising from our certification of returns and grant claims for 2008/09 that need to be drawn to the Council's attention. We summarise below the main features of our work and what we found.

Certification fees

- 4 The fees we charged for grant and returns certification work in 2008/09 were £86,359.

Background

- 5 The Council received £103.5 million from grant-paying departments in 2008/09 which required certification by auditors. It also collected and paid to the National Non-Domestic Rates Pool a contribution of £87.4 million. This is a significant amount of income that the Council is accountable for and it is important that this process is properly managed. In particular this means:
 - an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim or return.
- 6 We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by government departments and other public bodies to the Council. We charge a fee to cover the full cost of certifying these claims. The fee depends on the amount of work required to certify each claim or return.
- 7 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 8 The key features of the current arrangements are as follows.
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree claim form entries to underlying records, but do not undertake any testing of eligibility of expenditure. The Council did not have any claims or returns in this category in 2008/09 requiring our certification.
 - 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 claim form 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 more extensive testing 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 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.

This approach impacts on the amount of grant claim work we carry out, placing more emphasis on the high value claims.

Findings

Claims audited

- 9 Details of the 2008/09 grant claims that we certified are given in Appendix 1. The main issues arising from this work are detailed below.
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Control environment

- 10 There were five claims or returns that were above the £500,000 threshold where we judged it inappropriate to place reliance on the associated control environment. This was mainly because of previous problems with those claims or returns, the complexity of the claim or return, or a change of responsible officer since our last review. There are no areas where we have significant concerns about control weaknesses. The claims and returns involved were as follows:
- National non-domestic rates return;
 - Housing Revenue Account subsidy;
 - Sure Start, Early Years and Childcare grant;
 - Teachers' pensions return;
 - New Deal for Communities - statement of grant usage.
- 11 Note that our approach for the Housing Benefit and Council Tax Benefit subsidy claim does not include a risk assessment of the control environment. This is because of the significant value and complexity of the claim at all councils and the requirements of the Department for Works and Pensions.
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Amendments

- 12 We agreed amendments with officers to the National Non-Domestic Rate return and to four of the claims that were certified as set out below:-
- Following a query arising from our testing of empty property relief, officers identified an error in the computer system interrogation report that was used to support the original figures in the National Non-Domestic Rates return in respect of Empty Premises relief. We agreed the required amendment to the return which reduced the amount payable to the national pool by £325,470.
 - The main capital block element of the Sure Start, Early Years and Childcare Grant was reduced by £135,973.
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- The total of the Management and Administration costs received for periods to 31 March 2008 in respect the New Deal for Communities statement of grant usage was reduced by £86,811. This increased by the same amount the balance of the Management and Administration costs available for the remainder of the programme.
 - The aggregate amounts originally recorded as nil in the Housing Revenue Account subsidy form in respect of premium payable and discount receivable arising from early debt repayment, were amended to £7,789 and £9,383 respectively.
- 13 The Housing Benefit and Council Tax Benefit subsidy claim was also amended, primarily to correct errors made in rent rebate claims which had been suspended around the year-end. This is a complex and demanding claim and it is common across councils for errors to be found as a result of our detailed testing. In our testing this year we found a range of minor errors, largely of a non-recurrent nature and all of small value. The overall net impact of all errors was to increase the claim by £4,004 in a total of £92.8 million. We were therefore able to conclude that there were no significant problems, and this outcome was consistent with a trend over recent years of a reduction in the number and magnitude of errors found in the Council's subsidy claim.

Qualifications

- 14 We issued a qualification letter to the Department of Work and Pensions to accompany the certified Housing Benefit subsidy and Council Tax benefit subsidy claim. The factual content of the letter was agreed with officers. Our qualification letter identified an issue specifically relation to rent rebate claims that had been suspended over the year-end period and also set out extrapolations based upon the results of our testing of the individual claims and the entries within cells 144, 147 and 148.
- 15 We also issued a qualification letter to the Department for Communities and Local Government in respect of the New Deal for Communities statement of grant usage. The qualification related to the issue of advance payments in respect of the redevelopment of 'Eastpoint' including a payment of capital funding totalling £3,680,973. This payment had been made into an 'escrow' bank account held by an independent firm of solicitors in Southampton, in advance of either goods being supplied or services rendered. The Council has received a signed letter form the Renewing Neighbourhoods Division of the Department for Communities and Local Government which confirmed agreement that this payment could be considered as defrayed in 2008/09 and therefore the statement of grant usage was not amended.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Grant claim or return	Value £	Reliance placed on control environment and carried out only limited testing	Amended	Qualification letter
Housing Benefit subsidy and Council Tax benefit subsidy claim	92,812,888	n/a	Yes	Yes
National Non-Domestic Rates return	87,427,045	No	Yes	No
HRA subsidy claim	-5,584,649	No	Yes	No
HRA subsidy base data return	n/a	Yes	No	No
Pooling of housing capital receipts return	1,613,998	Yes	No	No
Disabled Facilities grant	600,000	Yes	No	No
Sure Start, Early Years and Childcare grant	8,316,710	No	Yes	No
Teachers' pensions return	11,138,914	No	No	No
New Deal for Communities - statement of grant usage	7,362,000	No	Yes	Yes

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
