

Certification of claims and returns - annual report

Lincolnshire County Council

Audit 2009/10

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Summary

Funding from government grant-paying departments is an important income stream for the Council. Although the number of claims subject to audit has reduced in recent years, the Council needs to manage claiming this income carefully and meet the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims.

Certification of claims

1 Lincolnshire County Council receives significant funding from grant paying departments which attach conditions to these grants. The Council must show that it has met these conditions. If it cannot evidence this, the funding can be at risk. The Council must manage certification work properly, including the provision of annual returns, and demonstrate to us that the relevant conditions are met.

2 In 2009/10, the external audit team certified five claims or returns with a total value of £101 million. All claims were subject to a full review and only one was subject to amendment (Teachers Superannuation return) although the amendment did not impact on the total value of the return.

3 With the exception of the Connexions grant claim which related to 2007/08, all claims and returns were submitted to us promptly and we were able to issue the audit certificates on or before the deadline set by the relevant department. Appendix 1 sets out a full summary.

Significant findings

4 We issued a qualification letter to the grant-paying body on the 2007/08 Connexions grant claim.

5 The quality of the supporting evidence relating to the annual teachers superannuation return (foundation school data) has improved considerably. Two amendments were made to the return but these did not affect the total value of the return.

Certification fees

6 The audit fees charged for grant certification work in 2009/10 were £22,800, which is in line with the estimated fee of £23,000 set out in our 2009/10 audit fees letter dated 14 April 2009.

Background

7 The income from grant paying departments is significant and the process must be well managed. 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.

8 Section 28 of the Audit Commission Act 1998 requires the external auditor to certify certain claims and returns for grants or subsidies paid by government departments and public bodies to Lincolnshire County Council. An audit fee is charged to cover the full cost of this work which 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;

- For claims and returns below £125,000 the Audit 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 With the exception of the Connexions grant claim (see below) we were able to rely largely on the control environment in undertaking the audit of the remaining claims in 2009/10. Because of the high values involved and the outcome of our analytical review we carried out some limited testing in key areas.

12 The Connexions claim was not received until two years after the end of the claim period and the Connexions Partnership no longer existed, therefore it was not possible to assess the control environment that operated in 2007/08.

Specific claims

Connexions grant claim 2007/08

13 From 1 April 2008 Connexions became part of the services provided directly by the Council (LCC) and there was a long delay in the preparation of the 2007/08 grant claim which was valued at over £8 million. No further grant claims have needed to be submitted since.

14 When the 2007/08 claim was eventually provided on 1 April 2010, many key staff who worked for the partnership in were no longer employed and the audit trail to primary documentation was not available as the partnership did not use the LCC SAP ledger system.

15 We met with officers, ex Connexions employees and the former auditors and were able to obtain sufficient information to support directly or indirectly most of the entries on the claim form and to carry out the testing we considered necessary.

16 Because the audit trial was incomplete we issued a qualification letter on the claim to the grant paying department dated July 2010. The letter also summarised the areas where the Council had not fully met the conditions or requirements set by the department. These were:

- It was not possible to carry out audit testing of premises costs (£450,677) and other administrative costs (£555,464) as the audit trial to prime documentation had not been retained. The documentation existed, in storage, but without a transactional list sample testing could not be performed.

- The terms of the grant prohibit an organisation from generating a surplus from activities funded by the partnership grant. We found an underspend of £148,903 which contravenes the terms of the grant. We reported that this underspend was held by Connexions Lincolnshire & Rutland Ltd in an interest earning account and that it remains unspent.
- The Council had not provided a supplementary note to the claim form explaining why income recorded as “other government funds” or “all other income” amounted to 10% or more of total income. We received a satisfactory response from the Council directly which we included in the qualification letter.

Teachers' superannuation return

17 The annual teachers' superannuation return (£40.888 million) was presented for audit by the deadline of 30 June 2010 and certified on the 25 November 2010.

18 There is a history of qualification letters associated with this return, largely as a result of insufficient supporting evidence from foundation schools. We found that the quality of evidence has improved considerably this year.

19 Our analytical review found that an administrative error of £24,258,167 million had occurred in the compilation of the return. Officers agreed to remove salaries inadvertently included in both part A, box 1 (authority's payroll) and part B box 1 (other payroll providers). The amendment did not impact on the total value of the return.

20 The entries in line 5a columns (i) to (iv) of the final return presented for audit (analysis of the total contributions paid) had not been completed. Officers made an amendment to the return before we submitted it to the Department.

Surestart annual financial statement

21 This return was received and certified within the timescales set by the grant paying department. No issues arose from our work.

LTP major projects (2 claims)

22 These related to the ongoing A1073 scheme and the final claim on the A158 scheme. The final claim for the A1073 is expected shortly and will be certified as part of the 2010/11 audit.

23 No issues arose from our work on either claim.

Appendix 1 Summary of 2009/10 certified claims

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

Claim	Value £	Adequate control environment	Amended	Qualification letter
Teachers' Superannuation Return 2009/10	40,888,307	Yes	Yes but no impact on total value	No
Local Transport Plan Major project (A 1073)	30,970,913	Yes	No	No
Surestart Annual Financial Statement 2009/10	20,834,555	Yes	No	No
Connexions 2007/08	8,489,145	No	No	Yes

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

Claim	Value £	Amended
Local Transport Plan Major project (A 158)	354,742	No

Source: Audit Commission grant claims and returns control record

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946