

Certification of claims and returns - annual report

Kent County Council

Audit 2008/09

February 2010



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Status of our reports

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- 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. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes any 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 and returns

- 1 Kent County Council receives significant funding from various grant-paying departments. 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 2008/09, the audit team certified ten claims with a total value of £143 million. Of these, we carried out a limited review of six claims and a full review of four claims. (Paragraph 10 explains the difference). We made amendments to eight of the claims and issued a qualification letter in relation to the Teachers' Pensions Return. Appendix 1 sets out a full summary.

Certification of fees

- 3 The fees we charged for grant certification work in 2008/09 total £17,665.

Actions

- 4 Appendix 2 summarises the key recommendations.
- 5 The relevant officers of the Council have agreed these recommendations.

Background

- 6 The Council claims funding for specific activities from grant paying departments. As this is significant to the Council's income 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.
- 7 I am 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 the Council. I 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.
- 8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 9 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 Part A 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 Part A tests to agree from entries to underlying records but do not undertake detailed Part B testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake both Parts A and B 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

School centred initial teacher training grant

Control environment

- 10 Although the complexity of the return is relatively low, we concluded that we could not fully rely on the control environment as there had been a change in the officer responsible for compiling the claim.

Key findings

- 11 The Council amended the claim in the period between the submission of the claim and the onsite audit visit due to human error when typing entries into the claim. The amended version of the claim was audited in accordance with the grant-paying body instructions and no errors were identified.

Recommendation
R1 Officers should continue to check the claim for consistency and accuracy before submitting to audit.

LSC funding of Further Education in Local Authority Institutions

Control environment

- 12 We concluded that we could not fully rely upon the control environment for the preparation of the claim due to the following factors:
- there had been a change in officer compiling the claim; and
 - a minor human error was identified in the previous years claim which could have recurred in the 2008/09 claim.
- 13 Due to our knowledge and experience from our work in previous years we decided that we could however restrict our detailed Part B testing by using smaller samples sizes.

Key findings

- 14 Our testing of the claim in accordance with the grant-paying body's instructions did not identify any errors. There are no issues to report to officers or members based on our audit work.

European Regional Development Fund - various projects

Control environment

- 15 The Council submitted five claims funded from the European Regional Development Fund on behalf of the Government Office for the South East (GOSE). These are:
- Marlowe Innovation Centre;
 - Technical Assistance - D1 Management, Implementation, Monitoring & Control of Expenditure (TA1-29);
 - Technical Assistance - D2 Evaluation & other Technical Assistance Activities (TA2-29);
 - Franco-British Interreg IIIa 2000-2006; and
 - Link: ED (Linking Nord - Pas de Calais & Kent Educationalists).
- 16 As all of the claims were between the £100,000 and £500,000 threshold set by the Audit Commission we were only required to undertake limited Part A tests to agree claim entries to underlying system records.

Key findings

- 17 Our testing of the claims in accordance with the grant-paying body's instructions identified errors in all the claims. For four of the claims there was no overall effect on the amount of grant entitlement as the errors were classification issues within the expenditure section of the claims. One recommendation is arising from the audit of these claims.

Recommendation

R2 The Council should ensure that the correct version of the claim form is used when compiling the claim.

- 18 The detailed findings for the claim where entitlement was amended in advance of certification is set out below.

Link: ED (Linking Nord - Pas de Calais & Kent Educationalists)

- 19 Following discussions with auditors from GOSE the Council did not include additional income from study visit trips totalling £10,920 in the 'Statement of project expenditure and source of funding'. The Council produced a revised claim for auditor certification.

Recommendation

R3 Officers compiling grant claims should ensure that amounts entered onto the claim form meet the definitions of income and expenditure as set out by the grant paying body.

Findings

The Thames Gateway Kent Urban II Community Initiative Action Plan 106

Control environment

- 20 We concluded that we could not fully rely upon the control environment for the preparation of the claim due to the following factors:
- the form was the final claim of a six year project which included a high volume of individual transactions and projects per quarter; and
 - an error was identified in the previous years claim.
- 21 Due to good internal controls operating by the Council we decided that we could restrict our detailed Part B testing by testing ten projects over the lifetime of the scheme.

Key findings

- 22 Our testing of the claim in accordance with the grant-paying body's instructions identified no error. There are no other issues to report to officers or members based on our audit work.

Sure start, early years and childcare

Control environment

- 23 Although the complexity of the claim is low and the officer compiling the claim has been doing so for a number of years we were unable to rely fully on the control environment as there had been significant changes to the grant conditions for 2008/09:
- the Council was no longer allowed to pool any portion of the grant into an LAA; and
 - the introduction of funding for the graduate leader scheme.
- 24 Due to our knowledge and experience from our work in previous years we decided that we could however restrict our detailed Part B testing by using smaller samples sizes. We allocated the required sample of 20 between revenue and capital expenditure schemes.

Key findings

- 25 Our testing of the claim in accordance with the grant-paying body's instructions identified no error. There are no other issues to report to officers or members based on our audit work.

Teachers' Pensions Return

Control environment

- 26 We concluded that we could not fully rely upon the control environment for the preparation of the claim due to the following factors:
- the return is highly complex with a large volume of transactions; and
 - the return is completed by an external body, Capita PLC, on behalf of the Council.
- 27 We could not restrict the sample sizes for the detailed Part B testing and undertook a sample of 20 for all tests.

Key findings

- 28 Our testing identified a number of issues relating to the compilation and approval of the return.
- 29 Three amendments were made to the return in relation to the entries for contributory salary as audit testing identified that a small number of contributions did not agree with the payroll records of the authority or other payroll providers.

Recommendation

- R4** The Council should ensure that Capita carry out an accuracy check of the entries in the return to payroll system records.

- 30 The certified claim was subject to qualification relating to two matters. Teachers' Pensions does not expect any Council's return to be qualified for the same reason two years in a row. The DCFS has asked the Council to prepare an action plan to give the department assurance that it has put systems in place to avoid a repeat qualification. The qualification matters are set out in full below.

Review by Kent County Council of the submitted TR17 return

- 31 The instructions set out by Teachers' Pensions (TP) on behalf of the Department for Schools, Children and Families requires us to ensure that where any part of payroll administration has been outsourced, the Council has put in place adequate arrangements to satisfy itself that contributions have been correctly deducted and remitted to TP, on behalf of the Council, in accordance with the Regulations.
- 32 In our audit work we noted that there are no arrangements in place whereby the Council verifies the information included in the return whether supplied to or by Capita. The Council is effectively relying on Capita for the accuracy of the return without having satisfied itself that it is reasonable to do so.

Findings

- 33** The preparation of the monthly payments and the return is outsourced to Capita HR & Payroll Services. Capita prepare the payments and the return based on the payroll information from three key sources:
- the payroll records for the schools for whom Capita prepare the payroll (520 schools);
 - the monthly finance return as prepared by the Council regarding the individual teachers for whom they pay directly; and
 - the monthly finance Returns as submitted by the 69 schools who are responsible for the preparation of their own payroll records.
- 34** The information detailed on the finance returns is checked by Capita HR & Payroll Services to ensure that the deductions agree in total percentage to the monthly contributory salary and that any additional contributions agree to additional supporting documents supplied. However, no check is performed to ensure that these figures are derived from the payroll records themselves.
- 35** The responsibility for ensuring that the payments and the return have been prepared correctly lies with the Council. At present, the Council checks that the return agrees to the information in the Annual Return. However, there are two weaknesses in this approach:
- the check is not performed until after the date that the return was signed by the Children's, Families and Education directorate finance lead and submitted to Teacher's Pensions; and
 - the Annual Return is prepared from the same source as the return so should always agree.

Recommendation

- R5** The Council should put arrangements in place for the verification of all information included in the Teachers' Pension return from whatever source prior to signing it off for submission as fairly stated.

Outstanding supporting documentation – Part B 'Other' schools payroll provider

- 36** The return regulations set by TP requires auditors to consider the arrangements the authority has in place to satisfy itself as to the completeness and accuracy of the information and whether or not there is adequate evidence to support the entries made in the return from other payroll providers.
- 37** Our audit testing covered all three external payroll providers: Wispay; Kent Schools; and 'Other' schools which comprises of 69 individual schools who prepare their own payroll records. Sufficient assurance was obtained for the Wispay and Kent Schools sample.

- 38** Neither Capita nor the Council could provide supporting documentation for the sample selected from the 'other' schools in advance of the certification deadline. The superannuable pay in respect of 'other' schools totals £115,981,846 for the 2008/09 return.

Recommendations

- R6** The Council should ensure that full supporting documentation is available for the 69 schools that prepare their own payroll records.
- R7** The documentation from the 'other' schools should be checked by Capita and the Council to ensure the information is accurate and correctly reflected in the claim.

Appendix 1 – Summary of 2008/09 certified claims and returns

Claims and returns above £500,000

Claim or return	Certified value £	Part A or both Parts A and B completed ?	Amendment required?	Qualification letter required?
School centred initial teacher training grant	725,856	Parts A and B	Yes	No
LSC funding of Further Education in Local Authority Institutions	2,909,571	Parts A and B	No	No
The Thames Gateway Kent Urban II Community Initiative Action Plan 106	7,741,129	Parts A and B	Yes	No
Sure start, early years and childcare	44,136,226	Parts A and B	No	No
Teachers' pensions return	85,744,229	Parts A and B	Yes	Yes

¹ See paragraph 10 for explanation

Appendix 1 – Summary of 2008/09 certified claims and returns

Claims and returns between £100,000 and £500,000

Claim	Certified value £	Amendment required?	Qualification letter required?
Marlowe Innovation Centre	473,762	Yes - no overall effect	No
Technical Assistance - D1 Management, Implementation, Monitoring & Control of Expenditure (TA1-29)	432,255	Yes - no overall effect	No
Technical Assistance - D2 Evaluation & other Technical Assistance Activities (TA2-29)	172,945	Yes - no overall effect	No
Franco-British Interreg IIIa 2000-2006	102,001	Yes - no overall effect	No
ERDF - Link: ED	201,192	Yes - decreased by £6,552	No

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Officers should continue to check the claim for consistency and accuracy before submitting to audit.	2				
6	R2 The Council should ensure that the correct version of the claim form is used when compiling the claim.	1				
6	R3 Officers compiling grant claims should ensure that amounts entered onto the claim form meet the definitions of income and expenditure as set out by the grant paying body.	2				
8	R4 The Council should ensure that Capita carry out an accuracy check of the entries in the return to payroll system records.	2				
9	R5 The Council should put arrangements in place for the verification of all information included in the Teachers' Pension return from whatever source prior to signing it off for submission as fairly stated.	3				
10	R6 The Council should ensure that full supporting documentation is available for the 69 schools that prepare their own payroll records.	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R7 The documentation from the 'other' schools should be checked by Capita and the Council to ensure the information is accurate and correctly reflected in the claim.	3				

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