

Certification of claims and returns – annual report

Essex County 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. 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 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 Essex County Council receives funding from various grant-paying departments, which requires certification by the Audit Commission. 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 My audit team certified six claims relating to 2008/09 with a value over £116 million. Of these, we carried out a limited review of one claim and a full review of five claims. (Paragraph 10 explains the difference.)
- 3 The Council amended three of the claims that required full certification to correct errors we identified. In addition we issued five qualification letters to the grant-paying bodies for uncorrected errors or uncertainties that could not be resolved. The claim that required only a limited review was also amended. Appendix 1 sets out which claims were amended or qualified.
- 4 Our work on grant claims is still ongoing as we have recently been made aware that the Council should have submitted a further grant claim to us some time ago relating to A12 improvement works which Corporate Finance were unaware of until we raised the issue following a query raised by the relevant government department.

Significant findings

- 5 The findings from our certification work completed so far are detailed in paragraphs 11 to 17.

Actions

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

Background

- 7 The Council claims £1,059 million 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 the Council should ensure:
- an adequate control environment for all claims and return; and
 - that the evidence is available to demonstrate that the conditions attached to each claim have been met.
- 8 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 Essex County 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. The Council submits a number of other grant claims that I am not required to certify.
- 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 those claims that I am asked to certify.
- 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 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

- 11** The School Centred Initial Teacher Training (SCITT) claim and the SureStart return were submitted late for audit. The Council should have submitted a grant claim to us by 31 July 2009 relating to A12 improvement works but Corporate Finance was unaware that the claim had been made. The deadline for auditing the claim was 31 October 2009. We will audit the claim when we receive a certified claim with supporting working papers.

Recommendation

- R1** Effectively track all grant claims that need to be audited so that deadlines for submission are met.

- 12** The SureStart return was qualified and amended for the following reasons.

- Although the Council have put in place arrangements to record capital assets purchased by third parties using SureStart funding, the registers only cover assets purchased in 2008/09 and not those from previous years. Furthermore, there is no separate register for SureStart funded assets purchased directly by the Council and the assets are not separately identifiable on the main Council asset register. This was a qualification issue in 2007/08 and 2006/07.
- The Council does not have formal tender or quotation arrangements in place for all its partner contracts. This does not comply with Standing Orders. However, we are aware that the Council are putting arrangements in place which should allow for a full procurement process for all contracts in 2011/12.
- Testing of a sample of five expenditure items identified £4,500 of capital expenditure included within revenue. This item was subsequently removed from the Statement.
- Testing of a further five items of expenditure totalling £6,863 identified that in all cases the expenditure could not be supported by an invoice or was supported by an invoice dated in 2009/10. The Council has also performed some retrospective validation checks and has found a significant number of schools have claimed for ineligible expenditure or for expenditure incurred in 2009/10.
- Testing identified that there are issues with the accounting treatment for VAT, but it was not possible to quantify the issue without significant additional testing.

Recommendations

- R2** Develop an asset register to record all assets funded from the SureStart grant.

R3	Continue to establish a full procurement process for all SureStart contracts by 2011/12.
R4	All expenditure on the SureStart grant claim should be eligible, correctly classified as either revenue or capital, and should be claimed in the correct financial year.
R5	Exclude all recoverable VAT from the SureStart claim.

13 The School Centred Initial Teacher Training (SCITT) grant claim was qualified for the following reasons.

- The record of registered trainees showed a total of 217, however, only 177 were recorded on the Audit Grant Report, as the remaining 40 were classified by the Council as self funded trainees. The certification instruction states that the Audit Grant Report should include all who started on a course between 1 August 2008 and 31 July 2009 and makes no reference to self funded trainees.

Recommendation

- R6** Seek written guidance from the Training and Development for Schools as to whether self funded trainees should be included on the SCITT Audit Grant Report.

14 The Learning Skills Council (LSC) Funding of Further Education in LA Institutions claim was qualified for the following reasons.

- Testing identified that in 1 case out of a sample of 20 the attendance register had been completed for only 1 week of a 20 week course.
- Testing identified that in 1 case out of a sample of 21 the learning agreement had not been signed by the tutor.
- Testing identified 2 cases out of a sample of 41 where minimum attendance criteria were not met as learners had withdrawn from the course prematurely.
- Testing identified 9 learners who were attending a food safety at work course which was ineligible for funding because the course was less than nine hours in length.

Recommendations

- R7** Attendance registers should be maintained for all courses. These registers should record attendances, absence and lateness, and should be completed and signed by the tutor during each session.
- R8** Learner agreements should be fully and accurately completed and then signed by both Learner and provider in accordance with guidance produced by the LSC and Certification Instruction.
- R9** The grant claim data should be cleansed to provide assurance that only learning provision eligible for LSC funding is reflected in the claim.

Findings

15 The Teachers' Pension Grant was qualified and amended for the following reasons.

- Contributions of £1,390 included in the claim could not be agreed back to the relevant contributions return (PAY221) for one school for one month.
- The Council have not retained copies of opt in and opt out forms for part time teachers with contracts dated prior to 1 January 2007.
- The Council could not support two short term pension payments with the relevant form (506). It was also identified that most 506 forms were not signed by a member of payroll staff.

In addition it was also identified that there is a need for a Head of Finance to take overall responsibility for the Teachers' Pension Return in terms of co-ordinating the completion of the claim, and liaising with the Teachers' Pension Agency to avoid future qualification issues.

Recommendations	
R10	Schools should ensure that they complete the PAY221 forms correctly. Any subsequent adjustments made to PAY221 forms by Payroll Services should be adequately supported by evidence.
R11	The Council should maintain internal records of opt in and opt out forms received.
R12	Short term pension forms (Form 506) should be signed and dated as required and retained for evidence.
R13	A Head of Finance should take overall responsibility for the Teachers' Pension Return.

16 The Essex Economic Partnership was qualified for the following reasons.

- The Council has obtained supporting working papers for payments made by partners for the majority of projects, but they have not done so consistently and have accepted incomplete sets of supporting papers from partners despite recognising that documents were missing. No self-certified statements have been obtained for projects run by another local authority as required and there is no evidence of a system of spot checks to ensure payments are being made on any project.
- The Council does not maintain an inventory of all Single Programme funded assets. Following guidance received from the East of England Development Agency (EEDA), Essex County Council record all completed assets of a value over £25,000 but there is a £10,000 de minimis set by the department in the certification instruction.
- Four items of expenditure out of a sample of 30 had been claimed which included VAT. No supporting evidence was available to verify that the VAT was correctly classified as non recoverable.

Recommendations

R14 Adequate supporting documentation from partners in the Essex Economic Partnership should be retained by the Council and monitoring visits should be extended to include spot checks.

R15 The Asset register should be updated to include all new assets and assets under construction greater than £10,000 funded by the Essex Economic Partnership grant claim.

R16 The VAT status of all partners in the Essex Economic Partnership should be established so VAT can be treated correctly in the grant claim.

- 17** The Haven Gateway Partnership Grant Claim was originally completed on an incorrect EEDA return. This was subsequently amended by the Council.

Recommendation

R17 The Council should ensure that the correct EEDA return is completed, as referred to in the Certification Instructions.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Teachers' Pension Return	80,278,397	Yes	Yes	Yes
Sure Start	22,301,060 (revenue) 2,835,791 (capital)	Yes	Yes	Yes
Economic Participation Programme	3,335,100	Yes	Yes	Yes
LSC Funding of Further Education in LA Institutions	438,321 (16-18 Learners) 4,428,479 (Adult Learners)	Yes	No	Yes
SCITT	2,646,770 (Essex Schools' ITT Partnership) 100,000 (Essex Primary Schools Training Group) 262,087 (EPSTG - Annual Accounts)	Yes	No	Yes

Claims between £100,000 and £500,000

Claim	Value £	Amended
Core Strategic Activity - Haven Gateway Partnership	160,000	Yes

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Claims and Returns Report 2008/09 - Recommendations						
General						
5	R1 Effectively track all grant claims that need to be audited so that the deadlines for submission are met.	3	Service Heads of Finance and Grant co-ordinator	Yes	All Services have been asked to complete and provide a service grants register to the Grants Coordinator, which includes details of grants required to be audited and the date the grant claim is required to be submitted by. From the service grants register the Grants Coordinator will produce and maintain an ECC Grants Register. The Service Grants Registers and the ECC Grants Registers will be used to effectively track all grant claims that need to be audited so that the deadlines for submission are met.	April 2010
SureStart						
5	R2 Develop an asset register to record all assets funded from the SureStart grant.	2	Service Heads of Finance for Schools Children and Families, and Environment Sustainability and Highways	Yes		

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R3 Continue to establish a full procurement process for all SureStart contracts by 2011/12.	2	Service Head of Finance, Schools Children and Families	Yes	The Council will continue to establish a full procurement process for all Sure Start contracts by 2011/12.	April 2011
6	R4 All expenditure on the SureStart grant claim should be eligible, correctly classified as either revenue or capital, and should be claimed in the correct financial year.	2	Service Head of Finance, Schools Children and Families	Yes	To ensure that all expenditure on the Sure Start grant claim is eligible, correctly classified and claimed in the correct financial year, the closure training for Sure Start Budget Holders will include training on creditors and the classification of Sure Start expenditure as revenue and capital.	March 2010
6	R5 Exclude all recoverable VAT from the SureStart claim.	2	Service Head of Finance, Environment, Sustainability and Highways	Yes		
	SCITT					
6	R6 Seek written guidance from the Training and Development for Schools as to whether self funded trainees should be included on the SCITT Audit Grant Report.	2	Business Support Co-ordinator, Essex Teacher Training	Yes	The Business Support Coordinator is currently seeking written guidance from TDA on this issue	April 2010
	LSC Funding of Further Education in LA Institutions Claim					
6	R7 Attendance registers should be maintained for all courses. These registers should record attendances, absence and lateness, and should be completed and signed by the tutor during each session.	2	Service Head of Finance, Adults, Health and Community Well-being	Yes	Attendance registers are checked by administrative staff and absences and lateness are recorded on the Management Information Systems Terms. Reports are regularly produced and provided to Strategic and Curriculum Managers for monitoring	February 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R8 Learner agreements should be fully and accurately completed and then signed by both Learner and provider in accordance with guidance produced by the LSC and Certification Instruction.	2	Service Head of Finance, Adults, Health and Community Well-being	Yes	Administrative Staff perform regular checks and update the Management Information System Terms. In house audit checks are made on a regular basis.	February 2010
6	R9 The grant claim data should be cleansed to provide assurance that only learning provision eligible for LSC funding is reflected in the claim.	2	Service Head of Finance, Adults, Health and Community Well-being	Yes	The LSC funding claim is produced on a weekly basis, exported and regular checks made to ensure accuracy.	February 2010
Teachers' Pension Grant						
7	R10 Schools should ensure that they complete the PAY221 forms correctly. Any subsequent adjustments made to PAY221 forms by Payroll Services should be adequately supported by evidence.	2	Head of Payroll Services	Yes	The Council is currently considering reissuing guidance to Schools on completing PAY 221 forms. A record is now maintained in Payroll which records any adjustments made to PAY 221 and includes the value of the adjustment and why the adjustment has been made.	February 2010
7	R11 The Council should maintain internal records of opt in and opt out forms received.	2	Head of Pensions Services	Yes In Part	Copies of all types of elections that are processed by the Teachers' Records Team are always retained. At present records are held for five years as the records prior to that were destroyed by records management. The Council will ensure that records of all elections processed by the Teachers' Records Team are retained seven years. A database is maintained which records every election processed by the team.	February 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>If an election over five years old processed by the Teachers' Records Team needs to be checked, the team is able to obtain a copy from the Scheme Administrators.</p> <p>For all those employees that come to us from another authority, the Council would obtain confirmation of their election from the Scheme Administrators, but the Council would not hold any records of their actual election forms as these would have been processed by their former employers.</p>	
7	R12 Short term pension forms (Form 506) should be signed and dated as required and retained for evidence.	2	Head of Payroll Services	Yes	All short term pension forms (Form 506) are retained, and now signed and dated by a member of payroll staff.	February 2010
7	R13 A Head of Finance should take overall responsibility for the Teachers' Pension Return.	3	Service Heads of Finance for Schools Children and Families, and Shared Services	Yes	The Council is currently considering which Head of Finance should take overall responsibility for the Teachers' Pension Return.	April 2010
	Essex Economic Partnership					
8	R14 Adequate supporting documentation from partners in the Essex Economic Partnership should be retained by the Council and monitoring visits should be extended to include spot checks.	2	Service Head of Finance, Policy Community Planning and Regeneration	Yes	Adequate supporting documentation from the partners is now retained by the Council and monitoring visits have been extended to include spot checks.	February 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R15 The Asset register should be updated to include all new assets and assets under construction greater than £10,000 funded by the Essex Economic Partnership grant claim.	2	Service Head of Finance, Policy Community Planning and Regeneration	Yes	The Council have identified all projects that have received capital funding since 1 April 2008 (date the Council became accountable) and have requested an asset register be completed for all assets greater than £10,000 funded by the Essex Economic Participation Programme. All new project partners are required (via the contract) to complete an asset register for all assets greater than £10,000 funded by the Essex Economic Participation Programme.	May 2010
8	R16 The VAT status of partners in the Essex Economic Partnership should be established so VAT can be treated correctly in the grant claim.	2	Service Head of Finance, Policy Community Planning and Regeneration	Yes	The VAT status of all partners was confirmed during the audit. For new project partners they are notified by the contract that “Any VAT which you can recover from Her Majesty’s Revenue and Customs must not be included within the sum sought as grant. If you are unable to claim back VAT then you will be required to provide evidence to demonstrate this”. In addition all invoices are checked to establish whether VAT has or hasn’t been included and whether this is in line with the project partner’s VAT status.	February 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Haven Gateway Partnership					
8	R17 The Council should ensure that the correct EEDA return is completed, as referred to in the Certification Instructions.	2	Service Head of Finance, Policy Community Planning and Regeneration	Yes	The 2009/10 Certification Instruction will be reviewed to ensure that the correct EEDA return is completed.	July 2010

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