

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **18 July 2011**

Originating Service Group(s)

DELIVERY

Contact Officer(s)/

PAT MAIN

Telephone Number(s)

4410

Title

ANNUAL GRANTS CERTIFICATION REPORT 2009/2010

RECOMMENDATION

That the report be received.

1. **PURPOSE**

- 1.1 External auditors are required by the Audit Commission to report annually on the results of certification work to those charged with governance, in order to summarise issues, amendments and qualifications arising in their certification work of grant claims and returns. The attached report has been prepared by the authority's external auditors, PricewaterhouseCoopers LLP. It is important because it provides feedback on how effectively the council is managing the grants and subsidies it receives and administers.
- 1.2 It is important to focus on areas where claims and returns have been amended following certification work, or where the auditors have qualified matters. In such cases, there may be weaknesses in control, administrative inefficiency, and additional audit costs incurred. The results of certification work are taken into account by the external auditors when performing other Code of Audit Practice work, including their conclusions on the financial statements, use of resources, data quality, and financial management.

2. **BACKGROUND**

- 2.1 Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities. The Audit Commission makes the arrangements for certification by setting thresholds above which certification is required, and by issuing sets of instructions for claims and returns. In addition they set the timescales and process overall. Certification work is not an audit: it involves applying prescribed tests, as set out within Certification Instructions ("CIs") issued to external auditors by the Audit Commission. These are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.
- 2.2 During the period 2009/10 PwC certified fourteen claims and returns worth over £238 million. In five cases a qualification letter was required to set out significant issues arising from the certification of the claim. Eight of the claims were amended following the certification work undertaken.
- 2.3 The most significant issues which resulted in amendments to the claim or return or a qualification letter are detailed in the report along with the issues identified, the risks associated with them and PwC's recommendations for improvement. Agreed actions are detailed in Appendix B to the report, and PwC's fees for certification work are summarised in Appendix A. Table 1 below summarises the grants for which qualification letters were issued, and Table 2 summarises those where amendments were made. In Table 2, it should be noted that not all amendments resulted in changes to the value of the claim or return.

Table 1 – Summary of Qualified Claims and Returns

Grant/Return Name	Value £M
National Non-domestic Rates Return ⁽¹⁾	68.942
HRA Subsidy Base Data Return ⁽²⁾	N / A
Housing and Council Tax Benefits Scheme	126.570
Local Transport Plan Major Projects (Red Routes)	1.846
Wolverhampton Development Company	0.450

(1) This return relates to amounts payable to Government.

(2) This return only contains statistical information.

Table 2 – Summary of Amended Claims and Returns

Grant/Return Name	Value of Original Claim £M	Value of Amended Claim £M	Value of Amendment £M	Amendment %age
Sure Start, Early Years and Childcare Grant & Aiming High for Disabled Children Grant	9.934	9.907	(0.027)	0.03%
HRA Subsidy Base Data Return ⁽¹⁾	N / A	N / A	N / A	N / A
Housing and Council Tax Benefits Scheme	126.570	126.570	-	-
Teachers' Pension Return	17.671	17.671	-	-
HRA Subsidy Claim ⁽²⁾	(3.422)	(3.154)	0.268	7.83%
Local Transport Plan Major Projects (West Midlands UTC)	2.973	2.973	-	-
Wolverhampton Connections	0.015	0.015	-	-
Wolverhampton Development Company	0.450	0.450	-	-

(1) This return only contains statistical information.

(2) This return relates to an amount payable to Government.

3. FINANCIAL IMPLICATIONS

- 3.1 The total costs of PwC's certification work on 2009/2010 grants and claims was £0.110M, as shown in table 3 below. This included £0.006M relating to a 2008/2009 claim which had not previously been billed. These amounts were paid from the 2010/2011 External Audit Fees (Grants) budget, within Customer and Shared Services (General Fund revenue).

Table 3 – Total Fees Payable

	Actual Expenditure £M
Certification of 2009/2010 claims and returns	0.101
Certification of 2008/2009 claim	0.006
Charge for production of report	0.003
Total	0.110

[DK/01072011/F]

4. LEGAL IMPLICATIONS

- 4.1 The Council is required to obtain annually a report from its external auditors to ensure that the administration and monitoring of grant claims and returns are properly monitored.

[MW/05072011/I]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no environmental implications arising from this report

7. SCHEDULE OF BACKGROUND PAPERS

Grant claims and supporting working papers, Strategic Financial Services.

Certification Report (2009/10)

Report to those charged with governance

*Certification Report to
those charged with
governance 2009/10*

May, 2011





The Members of the Audit Committee
Wolverhampton City Council
Civic Centre, St Peters Square
Wolverhampton
West Midlands
WV1 1SH

May 2011

Our Reference: Wolves0910/Cert/NT/RB DRAFT

Ladies and Gentlemen

Certification Report (2009/10)

We are pleased to present our Annual Certification Report summarising the results of our 2009/10 work for you to review at your meeting on 27 June 2011. You may wish to focus on amended or qualified claims and returns because there may be control weaknesses, inefficiency, or additional certification costs. Fees for 2009/10 certification work are summarised in Appendix A.

Results of Certification work

For the period ended 31 March 2010 10 we certified fourteen claims and returns worth a final net total of £238,447,410. Of these, eight were amended following certification and five required a qualification letter to set out significant issues arising from the certification of the claim/return. In addition to this we certified one claim to the value of £462,500, relating to the 2008/09 period, which required amendments and a qualification letter. More detail is attached.

We identified a number of issues relating to the Authority's arrangements for preparation of claims and returns. We have not included every issue identified here, but instead focus on those which have (or could have) a material impact on the amount of a claim or return or on the accounts.

We ask the Audit Committee to consider:

- the adequacy of the proposed management action plan for 2009/10 set out in Appendix B, and;
- the adequacy of progress made in implementing the prior year action plan (Appendix C).

Yours faithfully,

PricewaterhouseCoopers LLP

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Introduction

Scope of work

Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities, often requiring certification by the auditor of the claims and returns submitted to them.

Certification is not an audit but involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued by the Audit Commission, designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification. We certify claims and returns throughout the year to meet deadlines set by grant-paying bodies.

This report only addresses those claims and returns covered by a CI and above a threshold requiring certification.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including for our conclusions on the financial statements and on value for money.

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Statement of Responsibilities of Grant-paying bodies, Authorities, the Audit Commission and appointed Auditors in relation to claims and returns

In November 2010 the Audit Commission updated the ‘Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns’. This is available from the Audit Commission’s website. The purpose of this statement is to summarise the Audit Commission’s framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

Results of Certification Work

Results of Certification Work

Claims and returns certified

A summary of the claims and returns certified during for the year 2009/10 is set out below. In five cases a qualification letter was required to set out significant issues arising from the certification of the claim/return. Eight of the claims/returns were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were met.

Claims and returns certified in 2009/10

CI Reference	Title	Form	Original Value (£)	Final Value ¹ (£)	Amendment	Qualification
EYC02	Sure Start, Early Years and Childcare Grant & Aiming High for Disabled Children Grant	2009-10 AFS	9,933,510	9,906,966	Yes	No
LA01	National Non Domestic Rates Return	NNDR3 2009-10	68,942,322	68,942,322	No	Yes
CFB06	Pooling of housing capital receipts	AUDIT 2009-10	2,731,368	2,731,368	No	No
HOU02	HRA Subsidy Base Rate Return	HSBD 2011-12-B2	n/a	n/a	Yes	Yes
HOU21	Disabled Facilities	DFG 2009-2010	960,000	960,000	No	No
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	126,570,493	126,570,497	Yes	Yes
PEN05	Teachers' Pension Return	TR17	17,670,704	17,670,704	Yes	No
HOU01	HRA Subsidy Claim	HSGA 2009-10	-3,422,245	-3,154,470	Yes	No
TRA11	Local Transport Plan Major Projects (Red Routes)	S31 – AUD FORM 09/10	1,846,080	1,846,080	No	Yes
TRA11	Local Transport Plan Major Projects (Town centers access + Interchange)	S31 - AUD FORM 09/10	1,739,075	1,739,075	No	No
TRA11	Local Transport Plan Major Projects (West Midlands UTC)	S31 - AUD FORM 09/10	2,973,410	2,973,410	Yes	No
RG03	New Deal for Communities	Statement of Grant Usage	7,796,207	7,796,207	No	No
RG32	Wolverhampton Connections	Statement of Grant Expenditure	15,250	15,250	Yes	No
RG32	Wolverhampton Development Company	Statement of Grant Expenditure 2009/10	450,000	450,000	Yes	Yes

¹ Some amendments have no impact on the overall value of the claim.

Matters arising

Issues were identified which resulted in amendments to the claim or return or a qualification letter. The issues, risks associated with them and our recommendations for improvement are set out in the table below.

These issues have had or could have a material impact on the amount of claim/return and possibly a material impact on the financial statements.

Claim/Return (deadline)	Issue	Risk to the Authority	Recommendation
EYCo2 - Sure Start, Early Years and Childcare Grant (29/10/10)	<p>Weakness in internal control</p> <p>We received the return in June 2010, showing total expenditure of £9,933,510. We then received another version in August showing total expenditure total of £9,906,966, and this is reported as an amended claim, although no qualification was required. The same happened in the previous year.</p>	<p>Incomplete or inaccurate information may result in additional certification work and management time.</p> <p>By signing the submission, the Authority declared that all actual expenditure had been included on the original form.</p>	The claim should be thoroughly checked before the submission deadline, to ensure accurate and up to date entries. Estimated figures cannot be certified.
EYCo2 - Sure Start, Early Years and Childcare Grant (29/10/10)	<p>Non compliance with regulations/grant terms and conditions</p> <p>Administrative costs had not been apportioned on a fair basis (one third of the total expenditure). The claim form was amended.</p>	Inappropriate allocation of administrative costs against the various grant types.	Administrative costs should be apportioned on a fair basis, and considered in respect of the element of grant to which they relate.
LA01 - National Non Domestic Rates Return (24/09/10)	<p>Non compliance with regulations/grant terms and conditions</p> <p>The Authority had calculated the empty property relief using the Small Business Rate Relief ("SBRR") multiplier instead of the non domestic rate multiplier, but SBRR cannot be claimed for unoccupied property. The overall impact on the Return was minor. This was reported in the qualification letter dated.</p>	Inaccurate calculation of entries may result in penalties for incorrect submission of the form.	Entries within the claim should be calculated in line with guidance.

Claim/Return (deadline)	Issue	Risk to the Authority	Recommendation
HOU02 - HRA Subsidy Base Rate Return (08/10/10)	<p>Weakness in internal control</p> <p>The Authority has been unable to provide a comprehensive survey to support the categorisation of dwellings on the Rent Accounting system; except in cases where the dwelling was surveyed as part of the latest District Valuation (2005), this was undertaken on a beacon principle. The Authority does not hold other supporting records, such as detailed property holding records.</p> <p>This was also applicable to the prior year HRA Base Data Return.</p> <p>Further detail was set out in the qualification letter dated 8 October 2010.</p>	<p>Figures included within the Return may not be accurate; leading to the incorrect amount of subsidy being awarded in future periods. .</p>	<p>Members will be aware that proposed changes to the system of council housing finance may come into effect from April 2012. Authorities will become self-financing following a one-off financial settlement. The CLG have advised that it will be essential for the future viability of all councils' housing services that their settlements are based on accurate data. The Authority should ensure that robustness of its data on council housing is considered in light of these proposals.</p> <p>It should be noted that the 2010/11 scope of certification work for this return will be widened to include tests for the 2012 proposed self financing arrangements, although the precise scope has yet to be determined.</p> <p>In order to comply with guidance the Authority should ensure that they have survey information which identifies:-</p> <ul style="list-style-type: none"> - Build date; - Type of construction - Number of storeys - Classification as large or small in accordance with CLG guidance. <p>The Authority are currently undertaking a 2010 valuation exercise with the District Valuer, which will incorporate the information required for complete validation of entries in future periods.</p>
HOU02 - HRA Subsidy Base Rate Return (08/10/11)	<p>Non compliance with regulations / terms and conditions.</p> <p>Guidance requires Authorities to use a mandatory spreadsheet issued by CLG to calculate amounts for various rental income entries within the Return.</p> <p>We could not check the accuracy of calculations in the spreadsheet because detailed rent calculations for each property had not been retained.</p> <p>This was reported in the qualification letter and last year.</p>	<p>Entries are not consistent with requirements. This may impact upon the level of subsidy received / owed to CLG.</p>	<p>Reference or enquiry should be made to CLG for guidance on completion, and an understanding obtained.</p>

Claim/Return (deadline)	Issue	Risk to the Authority	Recommendation
HOU02 - HRA Subsidy Base Rate Return (08/10/10)	<p>Non compliance with regulations/grant terms and conditions</p> <p>The average rate of interest on HRA mortgages to be used for the claim was the actual rate charged by the Authority at 1 August 2010. This is calculated as the higher of:</p> <ul style="list-style-type: none"> the Standard National Rate ('SNR') set at 3.13% by the Secretary of State; and the Local Average Rate ('LAR') based on the Authority's own borrowing. <p>The borrowing rate from PWLB was 5.03% at 1 August 2010, but the Authority instead used 5.36% as its LAR, because that is the interest rate used on mortgages shown in Cabinet minutes in June 2009.</p> <p>An uplift of 0.25% was then applied the LAR, but no CLG determination was provided which would confirm this as acceptable.</p> <p>This was reported in the qualification letter.</p>	<p>Entries are not consistent with requirements. This may impact upon the level of subsidy received / owed to CLG.</p>	<p>The rate should be calculated in accordance with the CLG guidance.</p>
BEN01 - Housing and Council Tax Benefits Scheme (30/11/10)	<p>Weakness in financial reporting</p> <p>25 issues were noted.</p> <p>All significant matters were reported to the DWP in a qualification letter dated 18 November 2010. These related to:</p> <ul style="list-style-type: none"> incorrect treatment of service costs in the calculation of eligible rent; incorrect dates used in the application of new data; and misinterpretation of benefit guidance around disregarded income. 	<p>The overpayment or underpayment of benefit to claimants and the misstatement of the claim form so that incorrect subsidy is claimed.</p>	<p>The Council should take note of the issues raised within the qualification letter to prevent future occurrence.</p> <p>Suggestions for improvement include:</p> <ul style="list-style-type: none"> Review of assessors' work should focus on areas where errors have been identified during the certification process; particular attention should be paid to the calculation of eligible rent for Non-HRA cases and the determination of eligible income in modified scheme cases; and conduct refresher training for assessors in the areas where issues have been identified.
HOU01 – Housing Subsidy Claim (31/12/10)	<p>Weakness in financial reporting</p> <p>The 'average weighted borrowings' entry within the return has been calculated inclusive of internal borrowing. This is a departure from the guidance (requiring internal borrowings to be omitted from the calculation).</p> <p>The claim form was amended in respect of this matter from £548,041,336 to £484,063,361; and had an overall impact of -£267,775 on its negative HRA subsidy entitlement.</p>	<p>Incorrect figures are reported to the CLG leading to errors in calculating subsidy entitlement and potential claw back or penalty issues.</p>	<p>The entry should be calculated in accordance with the CI guidance.</p> <p>The claim should be thoroughly checked and reviewed prior to submission to help ensure this.</p>

Claim/Return (deadline)	Issue	Risk to the Authority	Recommendation
TRA11 - Local Transport Plan Major Projects (Red Routes) (31/12/10)	<p>Weakness in internal control</p> <p>The 2009/10 claim included 2008/09 expenditure of £30,874.50 which had not been included in the 2008/09 claim.</p> <p>This was reported in the qualification letter.</p>	<p>The Authority could be penalised for improper completion of the claim.</p>	<p>The claim should be compiled in line with guidance and reviewed to ensure that all expenditure claimed for is eligible per claim requirements.</p>
RG32 Single Programme, Advantage West Midlands – Wolverhampton Development Company (31/12/10)	<p>Non Compliance with standard Single Programme Arrangements.</p> <p>We were unable to confirm the scope of requirements as set out in CI RG32. This was due to a non standard Single Programme Funding Agreement being in place between Advantage West Midlands (AWM) and the Authority.</p> <p>This impacted on our ability to confirm the:</p> <ul style="list-style-type: none"> • Appropriateness of expenditure; • Correct completion of the Statement of Expenditure; • Variations to contract; Appropriate monitoring of partnership expenditure; • Appropriate payments; • Correct awarding of contracts in line with AWM requirements. <p>Further details are set out in our qualification letter dated 16 March 2011.</p>	<p>Potential to Impact on the level of funding received.</p> <p>Additional work undertaken by auditors to establish the arrangements in place, resulting in an increased fee.</p>	<p>Clarification should be sought from AWM regarding the finding agreement and the applicability under CI RG32.</p>

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2008/09. Details can be found in Appendix C. There is still work to be done by the Authority to reduce the number of amendments and qualification letters raised through the certification process.

Appendices

Appendix A

Certification Fees

The fees for certification of each claim/return are set out below:

Claim/Return	2009/10 (£)	2008/09 (£)	Comment
CFBo6 Pooling of Housing Capital Receipts	3,943	4,530	n/a
HOU21 Disabled Facilities Grant	3,600	3,355	n/a
HOU02 HRA Base Data Return	7,337	5,873	Additional time incurred in relation to the follow up of and clearance of issues.
LA01 National Non Domestic Rates Return	5,398	5,289	n/a
HOU01 HRA Subsidy Claim	5,290	4,180	n/a
BEN01 Housing & Council Tax Benefits Scheme	35,400	39,422	n/a
EYCo2 Sure start, Early Years & Childcare Grant & Aiming High for Disabled Children Grant	4,473	4,910	n/a
PEN05 Teachers' Pensions Return	7,660	6,085	Additional work required to liaise with and review Internal Audit findings.
TRA11 Local Transport Plan: Major Projects – Red Routes	3,809	3,440	n/a
TRA11 Local Transport Plan: Major Projects – Town Centres Access & Interchange	3,291	3,695	n/a
TRA 11 Local Transport Plan: Major Projects – West Midlands UTC	3,936	3,312	n/a
RG03 New Deal for Communities	7,867	7,154	n/a
RG32 AWM Single Programme: Wolverhampton Connections	2,903	n/a	No certification in 08/09
RG32 AWM Single Programme: Wolverhampton Development Company	6,171	n/a	No certification in 08/09

These fees reflect the Authority's current performance and arrangements for certification.

The Authority could improve its performance by:

- **Coordination:** assigning a suitable key member of staff with responsibility to liaise with auditors and claim/return preparers in order to coordinate and improve certification arrangements across the authority,
- **Review:** improving the accuracy of claims/returns submitted for certification by requiring independent review for all submitted claims/returns,
- **Assurance:** increased involvement of internal audit, where appropriate, to provide assurance over certain aspects of claims/returns.
- **Information:** ensuring that information requested by the auditor is sourced and presented to the auditor on a timely basis following request; this is especially important where coordination with 3rd parties is required.

We are happy to discuss how we may assist further with your improvement, for example we can perform specific focussed, risk-based work in this area should that be required.

Appendix B

2009/10 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
EYCo2 - Sure Start, Early Years and Childcare Grant (29/10/10)	Weakness in internal control We received the return in June 2010, showing total expenditure of £9,933,510. We then received another version in August showing total expenditure total of £9,906,966, and this is reported as an amended claim, although no qualification was required. The same happened in the previous year.	The claim should be thoroughly checked before the submission deadline, to ensure accurate and up to date entries. Estimated figures cannot be certified.	In order to meet the end of July deadline the spend on the Children's Centres was included as the grant allocation. After this date the outturn position was received. There is a dependency on receiving this information from the directorate who supports the schools. The spend for the Children's Centres has to be separated from those of the schools. Information was also received late from the directorate on outturn statements for specific projects. For the 2010/11 claim the providers of this information to be contacted in April to reiterate the deadline for this information.	Head of Finance - Education and Enterprise (Immediate)
EYCo2 - Sure Start, Early Years and Childcare Grant (29/10/10)	Non compliance with regulations/grant terms and conditions Administrative costs had not been apportioned on a fair basis (one third of the total expenditure). The claim form was amended.	Administrative costs should be apportioned on a fair basis, and considered in respect of the element of grant to which they relate.	Agreed. Allocation for 10/11 claim to be as recommendation.	Head of Finance - Education and Enterprise (Immediate)
LA01 - National Non Domestic Rates Return (24/09/10)	Non compliance with regulations/grant terms and conditions The Authority had calculated the empty property relief using the Small Business Rate Relief ("SBRR") multiplier instead of the non domestic rate multiplier, but SBRR cannot be claimed for unoccupied	Entries within the claim should be calculated in line with guidance.	This issue concerned the calculation of empty property relief which arose because we took a decision in 2004 when Small Business Rate relief was introduced that we wouldn't raise the supplement for empty accounts unless there was a bill to pay. The effect on the NNDR3 was zero as, if we had increased the void allowance figure by the	Development Manager - Revenues and Benefits (Immediate)

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
	<p>property. The overall impact on the Return was minor. This was reported in the qualification letter dated.</p>		<p>supplement, there would have been an equal increase in the supplement total. Now we are using Northgate, the empty relief is calculated on the higher multiplier and a separate program is run to calculate the amount of small supplement. We believe that this issue is therefore resolved although we were using the legacy mainframe system until the end of January. We will ensure that the figures entered on this year's NNDR3 will show void allowances calculated on the appropriate multiplier.</p>	
<p>HOU02 - HRA Subsidy Base Rate Return (08/10/10)</p>	<p>Weakness in internal control The Authority has been unable to provide a comprehensive survey to support the categorisation of dwellings on the Rent Accounting system; except in cases where the dwelling was surveyed as part of the latest District Valuation (2005), this was undertaken on a beacon principle. The Authority does not hold other supporting records, such as detailed property holding records. This was also applicable to the prior year HRA Base Data Return. Further detail was set out in the qualification letter dated 8 October 2010.</p>	<p>Members will be aware that proposed changes to the system of council housing finance may come into effect from April 2012. Authorities will become self-financing following a one-off financial settlement. The CLG have advised that it will be essential for the future viability of all councils' housing services that their settlements are based on accurate data. The Authority should ensure that robustness of its data on council housing is considered in light of these proposals. It should be noted that the 2010/11 scope of certification work for this return will be widened to include tests for the 2012 proposed self financing arrangements, although the precise scope has yet to be determined. In order to comply with guidance the Authority should ensure that they have survey information which identifies:-</p> <ul style="list-style-type: none"> - Build date; - Type of construction - Number of storeys - Classification as large or small in accordance with CLG guidance. <p>The Authority are currently undertaking a 2010 valuation exercise with the District Valuer, which will incorporate the</p>	<p>The relevant information was requested from the District Valuer as part of the 2010 valuation exercise, and we are confident that this will provide sufficient evidence. It should be noted, however, that this remains on a 'beacon' basis as a comprehensive survey is unfeasible.</p>	<p>Head of Finance - Corporate Accountancy (Immediate)</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
		information required for complete validation of entries in future periods.		
HOU02 - HRA Subsidy Base Rate Return (08/10/11)	<p>Non compliance with regulations / terms and conditions.</p> <p>Guidance requires Authorities to use a mandatory spreadsheet issued by CLG to calculate amounts for various rental income entries within the Return.</p> <p>We could not check the accuracy of calculations in the spreadsheet because detailed rent calculations for each property had not been retained.</p> <p>This was reported in the qualification letter and last year.</p>	Reference or enquiry should be made to CLG for guidance on completion, and an understanding obtained.	We are unable to use DCLG's spreadsheet because it requires detailed rents information on an individual property basis going back to 2001, and the council does not hold this information.	Head of Finance - Corporate Accountancy (N/A)
HOU02 - HRA Subsidy Base Rate Return (08/10/10)	<p>Non compliance with regulations/grant terms and conditions</p> <p>The average rate of interest on HRA mortgages to be used for the claim was the actual rate charged by the Authority at 1 August 2010. This is calculated as the higher of:</p> <ul style="list-style-type: none"> the Standard National Rate ('SNR') set at 3.13% by the Secretary of State; and the Local Average Rate ('LAR') based on the Authority's own borrowing. <p>The borrowing rate from PWLB was 5.03% at 1 August 2010, but the Authority instead used 5.36% as its LAR, because that is the interest rate used on mortgages shown in Cabinet minutes in June 2009.</p> <p>An uplift of 0.25% was then applied the LAR, but no CLG determination was provided which would confirm this as acceptable.</p> <p>This was reported in the qualification letter.</p>	The rate should be calculated in accordance with the CLG guidance.	We do not accept that there was any error in the selection of the figure to go into this cell, or in its calculation.	Head of Finance - Corporate Accountancy (N/A)

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
BEN01 - Housing and Council Tax Benefits Scheme (30/11/10)	<p>Weakness in financial reporting</p> <p>25 issues were noted.</p> <p>All significant matters were reported to the DWP in a qualification letter dated 18 November 2010. These related to:</p> <ul style="list-style-type: none"> incorrect treatment of service costs in the calculation of eligible rent; incorrect dates used in the application of new data; and misinterpretation of benefit guidance around disregarded income. 	<p>The Council should take note of the issues raised within the qualification letter to prevent future occurrence.</p> <p>Suggestions for improvement include:</p> <ul style="list-style-type: none"> Review of assessors' work should focus on areas where errors have been identified during the certification process; particular attention should be paid to the calculation of eligible rent for Non-HRA cases and the determination of eligible income in modified scheme cases; and <p>conduct refresher training for assessors in the areas where issues have been identified.</p>	<p>For clarity, there were 3 issues affecting 25 of the claims tested rather than 25 separate issues.</p> <p>1. Incorrect Treatment of Service Costs This issue was identified by WCC prior to PwC conducting any testing and pointed out to PwC as soon as field work commenced. In fact by the time that PwC came on site a 100% review of all affected cases had been completed and adjustments made in the 2010/11 subsidy year.</p> <p>The qualification letter confirms this and states -"As the errors were identified by the authority prior to the performance of our testing, the authority performed testing over 100% of the remaining population. The errors they identified have been corrected as prior year overpayments in the 2010/11 subsidy year. We reperformed a sample of these further cases tested by the authority and found no issues with the conclusions formed."</p> <p>The approach was also approved by DWP and their response to the qualification letter was: "I can confirm that as there are no outstanding issues relating to the claim, it is acceptable to the Department..."</p> <p>As per the recommendation we have since taken additional care in this area.</p> <p>2. Incorrect Dates used in the application of new data This issue relates to one case only and is considered to be a one-off, not requiring any specific action in response.</p> <p>3. Misinterpretation of benefit guidance</p>	Head of Revenues and Benefits – Implemented

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
			around disregarded income The net effect of this issue was to increase subsidy to WCC by £361. However whilst the impact is minimal the error is acknowledged and steps have been taken to ensure correct treatment of the specific income to which this issue relates.	
HOU01 – Housing Subsidy Claim (31/12/10)	Weakness in financial reporting The ‘average weighted borrowings’ entry within the return has been calculated inclusive of internal borrowing. This is a departure from the guidance (requiring internal borrowings to be omitted from the calculation). The claim form was amended in respect of this matter from £548,041,336 to £484,063,361; and had an overall impact of -£267,775 on its negative HRA subsidy entitlement.	The entry should be calculated in accordance with the CI guidance. The claim should be thoroughly checked and reviewed prior to submission to help ensure this.	The staff involved in preparing the return have been advised and the workings spreadsheets have been altered to reflect the correct method.	Head of Finance - Corporate Accountancy (Immediate)
TRA11 - Local Transport Plan Major Projects (Red Routes) (31/12/10)	Weakness in internal control The 2009/10 claim included 2008/09 expenditure of £30,874.50 which had not been included in the 2008/09 claim. This was reported in the qualification letter.	The claim should be compiled in line with guidance and reviewed to ensure that all expenditure claimed for is eligible per claim requirements.	The Red Routes Programme is managed by Wolverhampton on behalf of the West Midlands and relates entirely to projects implemented by other authorities. The items identified relating to 2008/2009 were claimed by partner authorities during 2009/2010. Colleagues across the West Midlands have been made aware of the issue. The Department of Transport have not requested any adjustments as a result of the qualification letter.	Finance Manager - Regeneration and Enterprise (Immediate)
RG32 Single Programme, Advantage West Midlands – Wolverhampton Development Company (31/12/10)	Non Compliance with standard Single Programme Arrangements. We were unable to confirm the scope of requirements as set out in CI RG32. This was due to a non standard Single Programme Funding Agreement being in place between Advantage West Midlands (AWM) and the Authority.	Clarification should be sought from AWM regarding the finding agreement and the applicability under CI RG32.	Clarification will be sought.	Head of Finance - Regeneration and Enterprise (Clarification will be sought when the guidance requested is supplied)

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
	<p>This impacted on our ability to confirm the:</p> <ul style="list-style-type: none"> • Appropriateness of expenditure; • Correct completion of the Statement of Expenditure; • Variations to contract; Appropriate monitoring of partnership expenditure; • Appropriate payments; • Correct awarding of contracts in line with AWM requirements. <p>Further details are set out in our qualification letter dated 16 March 2011.</p>			

Appendix C

2008/09 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
HOU02 HRA Subsidy Base Data Return (10/10/2009)	<p>Weakness in internal control</p> <p>The CI requires that the Authority provides documentation to support the categorisation of dwellings. Although some dwellings had been included in the 2005 District Valuation, this did not apply to all properties.</p>	<p>In order to comply with the Certification Instructions a survey of properties should be undertaken to identify the following:</p> <ul style="list-style-type: none"> • Build date; • Type of construction • Number of storeys 	<p>The cyclical revaluation exercise will be performed again in the summer of 2010. The instructions to the District Valuer will include the attributes identified, and his findings recorded in the council's Northgate Housing system for use in future subsidy claims.</p>	<p>Head of Finance Corporate Accountancy – Summer 2010</p>	<p>Outstanding – issue re-raised in 2009/10 (to be addressed through the planned valuation exercise to be undertaken in Summer 2010).</p> <p>Authority comment: Should be addressed by new valuation undertaken in 2010/2011.</p>
	<p>Non compliance with regulations/grant terms and conditions</p> <p>Entries on the form had not been calculated in accordance with the guidance in relation to certain fields. Further details are available in the qualification letter dated 7 October 2009.</p>	<p>The Authority should use the guidance and spreadsheet from the CLG to calculate all entries.</p>	<p>The spreadsheet may be used in future, however to use it exactly as supplied requires detailed data going back to 2001/2002 which the authority no longer holds. The authority will be able to demonstrate how its use of the spreadsheet accurately calculates the relevant amounts.</p>	<p>Head of Finance Corporate Accountancy – next base data claim</p>	<p>In progress – however similar issues have been raised in the current year.</p> <p>Authority comment: Unable to address requirement due to lack of required information.</p>
LA01 National Non Domestic Rates Return (25/09/2009)	<p>Weakness in internal control</p> <p>Internal audit tested 25 cases where debts had been written off. Of these 25 it was found that four write-offs had been approved, but by someone not verified as the Chief Official. These four write-offs totaled £1,435.22. Also two of the 25 write-offs were found to have no supporting documentation. These totaled £2,140.71.</p>	<p>Appropriate authorisation should be documented in all cases where bad debts are written off and supporting documentation should be retained.</p>	<p>Staff are to be reminded of correct authorisation levels.</p> <p>The supporting documentation referred to was found subsequently, but the initial problem was noted and a system is now in place whereby the Authority's internal audit function check a sample of write-offs monthly.</p>	<p>Management Support Officer Local Taxation – With Immediate Effect</p>	<p>Implemented.</p> <p>Authority comment: The write off issue has been resolved by Internal Audit as part of the quarterly managed audit process. Internal Audit are in the office this week (4/4/11) doing the audit for January to March 2011 and have confirmed that no issues regarding authorisation of write offs has been identified</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
					during the current year. The monthly check was carried out during 2009/10 but was changed to quarterly at the beginning of 2010/11.
HOU01 Housing Subsidy Claim (25/09/2009)	Weakness in financial reporting An entry on this claim form relating to the estimated number of dwellings including shared ownership was not consistent with the equivalent information on the HOU02 Return.	Staff should have access to up to date guidance with regard to the claim form and should confirm that data entered on various claims and returns is consistent.	This will be addressed via supervisory review of the claim form.	Head of Finance Corporate Accountancy – With Immediate Effect.	Implemented. Authority comment: This has been corrected as per management response.
EYCO2 Surestart, Early Years and Childcare Grant 31/10/2009	Weakness in financial reporting Amendments were required to the form for the following reasons: <ul style="list-style-type: none"> The claim did not reflect updated information relating to categories of funding. The total main revenue block income was therefore incorrectly stated on the original claim; and Incorrect arithmetic resulted in an amendment. 	Up to date guidance should be available to all staff involved in completing the claim. A senior officer should review the claim form prior to submission.	The claim form completed was that issued with the Memorandum of grant 2008/9, the subsequent revised issue to be completed did reflect revised categories of funding but actually for Wolverhampton City Council this had no effect as we had no funding for the new categories Action To be taken - For 2009/10 we will check DCSF website prior to completing the final claim to ensure that we have the correct version. The arithmetic on the claim form was incorrect by £1, actuals from FMIS are entered to the penny to ensure that all expenditure matches the authorities records, the claim form rounds actuals entered to the nearest pound - thus causing this discrepancy. Action to be taken - FMIS actuals to be entered directly to the claim as round pounds. Finance Manager to check final claim prior to CFO sign off.	Finance Manager CYP Team – When Completing the 2009/10 Claim	In progress – however similar issues have been raised in the current year. Authority comment: Website to be checked prior to completing the final claim to ensure correct version. To be implemented including checking by Finance Manager.

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
PEN05 Teachers' Pension Return (30/11/2009)	<p>Weakness in internal control</p> <p>The following weaknesses were noted in the audit trail for the Black Country Support Service:</p> <ul style="list-style-type: none"> • Salary information in the return could not be agreed to the Black Country Support Service's payroll system; and • Records relating to Pension Contributions were not available. <p>The Authority had commissioned the internal auditors of Dudley MBC to review this issue. However, this became available too late in the certification process.</p>	<p>The Authority should ensure that all supporting documentation is available and complies with the certification instructions.</p> <p>Internal audit work should be completed in time for the Authority deadline for submission to the Teachers Pensions Agency and the auditors. The CFO signature should be on the basis that the Authority is satisfied that it is certifying on the appropriate basis and under the 'Statement of Responsibilities'.</p> <p>The outsourced payroll providers should be required to provide information to enable internal or external auditors to carry out appropriate detailed testing.</p> <p>The Authority should ensure that it has arrangements in place to satisfy itself as to the completeness and accuracy of the information received from third party payroll providers; and</p> <p>whether or not there is adequate evidence to support the entries made in the return. External auditors are not expected to visit third party providers.</p>	<p>Following the 2007/08 audit of the Teachers Pensions Return and subsequent qualification of this return regarding Black Country Support Service (outsources payroll for all Wolverhampton City Council, Dudley MBC and Sandwell MBC) it was agreed that Dudley MBC would instruct their internal audit division to carry out an audit of the Partnership. At this point PWC were asked to confirm that this would be suitable and sufficient for future audits, this was agreed.</p> <p>During the audit of the 2008/9 return which took place in November 2009 PWC advised that the information from Dudley was received too late for them to consider and that to place any reliance upon this work they would need to examine the sample records taken by Dudley. Dudley's external auditors were satisfied with the work completed and there was no qualification of their 2008/9 return</p> <p>Action to be taken - Proposal that Wolverhampton City Council Internal Audit division undertake an audit of Black Country Support Service payroll records and systems. This work to be undertaken prior to external audit of the return in November 2010. To be discussed with Internal Audit.</p>	Head of Finance/Finance Manager CYP Team – April 2010	<p>Implemented.</p> <p>Wolverhampton City Council Internal Auditors undertook work on the 'Other Payroll Providers' at Dudley MBC. The scope of work was agreed in accordance with Certification Instructions and PwC.</p> <p>Authority comment:</p> <p>Implemented - Wolverhampton City Council internal audit department undertook an audit of Black Country Supply service payroll records and systems. The results of this were noted at Sept 2010 prior to PWC commencing audit of the 2009/10 return.</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
TRA11 Local Transport Plan Major Projects Town Centre Access & Interchange 31/12/2009	Non compliance with regulations/grant terms and conditions Approximately £67,000 of expenditure relating to 2007/08 was included in the 2008/09 claim form. The final claim for 2007/08 was submitted before the full amount of eligible salaries was posted to the ledger. Although these salaries were not eligible for the 2008/09 claim, no amendment was made.	The salaries listing for each year should be provided before the grant claim is submitted in order to include all relevant expenditure.	The recommendation is accepted As discussed with the auditor a decision had been taken in prior years to prepare the grant claim in early April to ensure that WCC year end timescales could be met. As a result the internal technical salaries were not available for inclusion. In 2008/2009 the claim was prepared later in April and included both 2008/2009 technical salaries and those unclaimed from 2007/2008. It is the intention to complete the claim for 2009/2010 after internal technical salaries have been posted. The Department of Transport has not requested any adjustments as a result of the qualification letter.	Finance Manager Capital Team – With Immediate Effect	Outstanding Testing did not identify similar issues for the TRA11 Town Centre Access and Interchange in 2009/10. However, a similar issue has been noted with the TRA11 Red Route claim in the current year (details set out in Appendix B). Authority comment: The claim for 2009/2010 was completed after internal technical salaries had been posted.
RG03 New Deal for Communities 31/12/2009	Weakness in financial reporting Amendments were required to the form for the following reasons: <ul style="list-style-type: none"> • Arithmetic errors; • Entries on the claim do not agree to supporting documentation; • A spreadsheet used included a formula error. 	A senior officer should review the original claim and amended claim forms prior to submission. Entries on the claim should agree to supporting documentation.	Whilst the issues highlighted are not considered to be material they have been acknowledged, and the recommendation has been accepted.	Finance Manager – With Immediate Effect	Implemented. Similar issues were not encountered during 2009/10 Certification work. Authority comment: Recommendation implemented.

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
Housing and council tax benefits scheme (BEN 01)	<p>Ten issues were noted by PwC during the course of certification work. It was agreed with the Authority that no amendments were to be made to the original claim form and so all relevant issues were raised in the qualification letter.</p> <p>Further detail on the issues can be found in the 2008/09 qualification letter dated 20/11/09. Below is a summary of the types of error that were reported in the qualification letter:</p> <ul style="list-style-type: none"> • Misclassification of an overpayment which was the result of an Authority error; and • Errors were found in the calculations behind the modified scheme cells of the claim form including the use of incorrect pension information and capital figures. 	<p>The Authority should take note of the recommendations set out in the qualification letter. Working papers and authority records should be carefully prepared and the errors made in 2008/09 should be reviewed to prevent these being repeated. An improvement in the performance of the authority in this area may result in a decrease in the fee in 2009/10.</p> <p>Certification work on benefits is integrated with Use of Resources (KLOE2.2), VFM and audit opinions. As such the scores can be impacted.</p> <p>Suggestions for improvement include:</p> <ul style="list-style-type: none"> • The Authority should resolve any technical issues and ensure that their benefits system is accurately calculating the entries; • A proper system of review of assessors' work should be undertaken by team leaders; • Particular focus should be placed on review in complex and high risk areas; and • All evidence that supports the changing of individuals' claims should be retained on file. 	<p>Whilst the errors highlighted in the qualification letter are not considered to be material in the context of the £100m plus grant claims they have been acknowledged, the recommendations noted and a review of all local scheme cases over the last two years has already been conducted as agreed.</p> <p>There are robust arrangements in place already for checking claims and the existence of supporting evidence, with an internal team of benefit auditors backed up by the Authority's internal audit function.</p>	Head of Benefits – Implemented	<p>Authority comment:</p> <p>1. Misclassification of Overpayment: The qualification letter from PwC stated the following - "This case is deemed to be isolated as no further issues were noted in our extension testing or in respect of our prior year audit, for which no qualification letter was required." We do not therefore consider that any specific action was or is necessary.</p> <p>2. Calculation of Modified Scheme As per the original management response, all modified scheme cases were reviewed and adjustments made where necessary. Case details were made available to PwC for the 2009/10 certification work.</p>

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