

AUDIT COMMITTEE

21 MARCH 2013

EXTERNAL AUDIT GRANT CLAIM REPORT

Report from: Mick Hayward, Chief Finance Officer

Summary

This report and attached letter present the work carried out by PKF, our external auditor, in respect of the certification of grant claims for the financial year ended 31 March 2012. The report is presented to the Audit Committee to comply with governance requirements.

1. Budget and Policy Framework

- 1.1 In accordance with the terms of reference, receipt of the grant claim audit report (the letter) is a matter for the Audit Committee.

2. Background

- 2.1 PKF, as the Council's external auditor, provides a certificate on the accuracy of grant claims and returns to various government departments and other agencies on behalf of the Audit Commission and in accordance with the Certification Instructions issued for each specific claim or return.
- 2.2 The attached report sets out the main issues arising, the external auditor's recommendations for improvement and management's response for the financial year ending 31 March 2012.
- 2.3 The total value of these returns for the financial year 2011/2012 was £212 million and represented a substantial source of income and expenditure. The overall conclusion was that the Council's arrangements for the preparation and submission of returns were generally satisfactory, although some further work was required to ensure that all claims and returns fully complied with the Government requirements. It is noted that some amendments had to be made and the housing and council tax benefit subsidy claim was qualified.
- 2.4 A high level summary of the findings is set out in the following sections, with further details provided within the external auditor's report attached to this report. An Action Plan is also presented as Appendix B to auditor's letter.

3. Housing and Council Tax Benefit Subsidy Claim

- 3.1 On behalf of the Department for Work and Pensions detailed testing of a sample of benefit cases across all benefit types was undertaken.
- 3.2 The housing and council tax benefit subsidy claim was amended to correct errors affecting the four types of benefit administered by the Council. The overall impact was a reduction in subsidy of £44,323. This reduction does however need to be considered within the overall context of a total claim of £119 million and data entries in the hundreds of thousands.
- 3.3 Some errors and inconsistencies were found in the administration of non-HRA rent rebates. 21 cases were identified where claimants had moved from non-HRA properties to HRA or rent allowance properties. The claim had been amended to reflect the correct amount of expenditure and the overall impact was an increase in subsidy of £1,628. As reflected within the 2011/12 Action Plan the Council has already amended its procedures, provided new guidance to the assessment team and followed this up with additional sample checks to reinforce the changes.
- 3.4 Procedures have also been updated in response to the four identified cases where expenditure above the Local Housing Authority capped amount. It is also noted that these cases had no affect on the Council's entitlement.
- 3.5 A qualification letter was issued to the Department for Work and Pensions on the errors identified by the external auditor.

4. Pooling of Housing Capital Receipts Return

- 4.1 The Council is required to pay a proportion of housing capital receipts into the national poll operated by the Department for Communities and Local Government. The auditors identified items of ineligible improvement expenditure, legal expenses relating to the prior year and improvement costs that were inconsistent with underlying records.
- 4.2 As a consequence an additional £318 was payable by the Council and the return was amended accordingly. Management has agreed the recommendations put forward by the external auditor to ensure that expenditure is eligible and recorded correctly.

5. Housing subsidy return

- 5.1 The inclusion in the return of one property within a number of cells was corrected and the Council's capital financial requirement was adjusted to include Heritage assets. These adjustments did not however have any overall impact on the amount paid by the Council.

6. Teachers' pensions return

- 6.1 Errors were identified in the compilation of the form affecting the contributions recorded within the 'summary of contributions' balance of the annual return.

The auditor has recommended that a thorough review of the form is completed and this has been agreed by management.

7. Financial and Legal Implications

- 7.1 By virtue of the Accounts and Audit Regulations, a committee of the Council is required to consider external auditor's reports as soon as reasonably possible after receipt. Consideration of the external auditor's report falls within the Audit Committee's terms of reference.
- 7.2 The amendments to grant claims, made as a result of the audit, decreased the Council's grant entitlement by some £44,641. The external auditors fees for the 2011/12 grant audit total £45,000 (2010/11 £60,002), as per the table at Paragraph 3.1 of the attached report.

8. Risk Management

- 8.1 Risks of future grant claims being inappropriately prepared will be mitigated by continuing to improve procedures and complying with the recommendations of the external auditor.

9. Recommendation

- 9.1 That the Audit Committee notes the external auditor's grant audit report for 2011/2012 including the proposed Action Plan to achieve further improvements to the accuracy of the grant claims submitted to government departments.

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Background Papers: None

Grant claims and returns certification

year ended 31 March 2012

Medway Council

FEBRUARY 2013



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Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns

The Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors contains an explanation of the respective responsibilities of auditors and of the audited body. Appointed auditors act as agents of the Audit Commission when undertaking certification work. Reports and letters prepared by appointed auditors are addressed to the grant paying body, members or officers. They are prepared in accordance with the certification arrangements specified by the Audit Commission. This report is for the sole use of the audited body and no responsibility is taken by appointed auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

- 1.1 The Audit Commission requires external auditors to report the outcome of the annual audit of grant claims and other Government returns to those charged with governance. The total value of such returns for the period ending 31 March 2012 at Medway was over £212 million and represents a substantial source of income (and expenditure) for the Council.
- 1.2 Our overall conclusion is that the Council's arrangements for the preparation of returns, and subsequent submission to the relevant Government department and external audit in accordance with specified deadlines and with appropriate working papers, are generally satisfactory. Some further work is required to ensure all claims and returns fully comply with the Government's requirements and to reduce the amount of work necessary to complete our audit. However, the position should be seen in the context of the substantial income and expenditure involved and because auditors must amend the grant claim or return for any error identified, regardless of its value.
- 1.3 Our findings are summarised in the following table. Our detailed findings and recommendations are contained in Section 2. An improvement plan has been agreed with officers and is included at Appendix B.

SUMMARY OF FINDINGS

- 1.4 The overall value of claims and returns submitted to audit as at 31 March 2012 was £212 million. The outcome of our audit is shown below.

Claim or return	Value (£)	Qualified?	Amended?	Impact on subsidy (£)
Housing and council tax benefit subsidy claim	118,919,830	Yes	Yes	(44,323)
National non-domestic rates return	78,850,521	No	No	N/A-
Pooling of housing capital receipts return ⁽¹⁾	1,226,400	No	Yes	(318)
Housing subsidy return	(1,755,655)	No	Yes	0
Teachers' pensions return	12,752,886	No	Yes	0

(1) The value of capital receipts was £1,226,400. The £318 amount represents an increase in the amount paid to the national pool.

KEY ISSUES

- 1.5 The housing and council tax benefit subsidy claim was amended to correct errors affecting the four types of benefit administered by the Council. The overall impact was a reduction in subsidy of £44,323. Where we were unable to carry out additional audit procedures to fully quantify errors identified, we included the facts in a qualification letter to the Government department.
- 1.6 Our audit of the pooling of capital receipts return identified items of ineligible expenditure including home improvement expenditure, legal expenses relating to the prior year and improvement costs which did not agree to underlying records. As a consequence of these errors, an additional £318 was payable to the national pool and the return was amended accordingly.
- 1.7 The Council has taken steps to implement the recommendations raised in our 2010/11 *'grant claims and returns certification report'*. However, our 2011/12 audit has identified errors in the housing and council tax subsidy claim and is a reflection of the complexity of that return. Further improvement could still be made.

ACKNOWLEDGEMENT

- 1.8 We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

2 Key findings

The purpose of this report

- 2.1 This report summarises the key issues arising from the certification of grant claims and other returns for the period ended 31 March 2012. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued to auditors after consultation with the relevant grant paying body. Our work is undertaken in the light of the Statement of Responsibilities issued by the Audit Commission.
- 2.2 For those claims with a value of between £125,000 and £500,000, we conduct only a limited review of the overall control environment before certifying the claim. Grant claims below £125,000 are not subject to audit arrangements.
- 2.3 After completion of the audit procedures contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. The following table summarises the outcome of our audit of one grant claim and the four other returns prepared by the Council as at 31 March 2012.

Claim or return	Value (£)	Qualified?	Amended?	Impact of amendments (£)
Housing and council tax benefit subsidy claim	118,919,830	Yes	Yes	(44,323)
National non-domestic rates return	78,850,521	No	No	N/A
Pooling of housing capital receipts return ⁽¹⁾	1,226,400	No	Yes	(318)
Housing subsidy return	(1,755,655)	No	Yes	0
Teachers' pensions return	12,752,886	No	Yes	0

(1) The value of capital receipts was £1,226,400. The £318 amount represents an increase in the amount paid to the national pool.

Housing and council tax benefit subsidy claim

- 2.4 The value of housing and council tax benefit subsidy claimed in 2011/12 amounted to £119 million. In planning our work, we concluded the control environment surrounding the preparation of the claim was satisfactory. Regardless of the effectiveness of the control environment, the grant paying department (the Department for Work and Pensions - the 'DWP') requires us to undertake detailed testing of a sample of benefit cases across all benefit types, because of the complexity of the claim and the significant expenditure involved. The work involves a significant amount of external audit resources to complete the detailed review of benefit cases. We work with the Council's external contractors to complete the audit and can rely on the quality of the work produced by the contractors.
- 2.5 The audit requires testing of the information submitted by individuals to support benefit claimed to confirm the correct amount has been calculated by benefit officers and then properly recorded in the final subsidy claim prepared by the Council. We are required to test a sample of 20 claims in detail for each of the four benefit types administered by Medway.
- 2.6 Where errors are found within the sample of claims tested, unless these are clearly isolated errors, the DWP mandates further testing of 40 cases to establish whether the error type is systematic. The approach also provides a sufficiently large population to extrapolate potential error rates. Where we can not sufficiently quantify an error we are required to report the facts to the DWP in a qualification letter.
- 2.7 We found errors in calculating entitlement to benefit across certain claimant types. Additional work was undertaken to assess the nature of errors and the possible impact on benefit claimed. On completion of the additional work specified by the DWP, the following errors were identified and the claim was amended where possible.

Benefit type	Nature of error	Outcome
Housing Revenue Account (HRA) rent rebates	Misclassification of eligible overpayments that should have been classified as either technical or LA (local authority) error and administrative delay overpayments.	We extrapolated the error based on the testing completed and subsidy increased by £4,104.
Council tax	Misclassification of overpayments where eligible overpayments should have been classified as either technical or LA error and administrative delay overpayments.	Due to the number of different classification errors three sets of additional testing (40 cases in each set) was carried out. We extrapolated the error based on our findings and subsidy reduced by £50,429.
Rent allowance	Incorrect application of appropriate disregards in one modified schemes case that resulted in misclassification as the benefit entitlement should have been included in rent allowances.	Increase in subsidy of £374.

Non-HRA rent rebate

- 2.8 Working with the Council's external contractors, we found the following errors and inconsistencies in the administration of non-HRA (Housing Revenue Account) Rent Rebates:
- misclassification of eligible overpayments that should have been classified as either technical or local authority (LA) error and administrative delay overpayments
 - one case which resulted in an incorrect assessment of child benefit which overstated LA error and administrative delay overpayments
 - one case where benefit had been overpaid because the incorrect tenancy end date had been entered on to the system
 - one case that had been assessed as a non-HRA rent rebate case when it should have been assessed as an HRA rent rebate case.
- 2.9 We also found 21 cases where claimants had moved from non-HRA properties to HRA or rent allowance properties. The transfer between property types created overpayments within non-HRA expenditure. However, the overpayment recorded in the benefit claims was understated, with the claimant being paid full entitlement. The claim was amended to reflect the correct amount of expenditure.
- 2.10 We were unable to carry out additional testing to fully quantify this error because the Northgate system cannot produce a population of benefit cases where there is a change of address from non-HRA to HRA or rent allowance properties. We reported the facts in our qualification letter to the DWP. We recommend that the Council review procedures to ensure all

expenditure is correctly included within overpayment cells. The Council has now amended its procedures, provided new guidance to the assessment team and followed this up with additional sample checks to reinforce the changes to ensure this issue does not occur in the future.

- 2.11 The overall impact of the errors identified as part of non HRA rent rebates testing was an increase in subsidy of £1,628.
- 2.12 We also identified four cases where expenditure above the local housing authority (LHA) cap had not been included in the claim. These errors were corrected which meant total expenditure (cell 11) increased by £5,204 and corresponding analysis cells (cell 13 and cell 15), increased by £3,490 and £1,714 respectively. The amendments did not affect the Council's entitlement to subsidy.
- 2.13 We were unable to carry out additional testing to fully quantify this error as the Northgate system cannot provide an analysis of all benefit claims where expenditure is capped at the LHA amount. We reported this issue to the DWP in a qualification letter. We recommend that the Council updates its procedures to ensure all expenditure above the LHA cap is included in the claim. Officers have informed us that procedures have been introduced to ensure expenditure above the LHA capped amount is identified, and correctly included in the claim, when a new benefit claim or a change in circumstance has occurred.
- 2.14 We also reported the following errors in our qualification letter which did not affect the Council's entitlement to subsidy:
- HRA rent rebate - one case where benefit had been underpaid as a result of the Council using the incorrect rent liability amount in calculating the weekly award
 - rent allowance - two cases where benefit had been underpaid as a result of the Council miscalculating the claimant's weekly income
 - council tax - one case where benefit had been underpaid as a result of the Council miscalculating the claimant's weekly income.

National non-domestic rates

- 2.15 The Local Government Finance Act 1988 introduced a National non-domestic rates system using a uniform business rate set by the Secretary of State. Billing authorities contribute to and subsequently receive payments from a national non-domestic rates pool.
- 2.16 The Council reported an amount payable to the pool of £79 million. The return was certified without any amendments.

Pooling of housing capital receipts return

- 2.17 Local authorities must pay a proportion of housing capital receipts into the national pool operated by the Department for Communities and Local Government (DCLG). Pooling applies to all authorities, including those who may have transferred their housing stock and no longer maintain a Housing Revenue Account (HRA). Such authorities may occasionally secure receipts in the form of mortgage principal and Right to Buy (RTB) discount repayments. The specified amount of receipts submitted to the pool (which includes non-monetary transactions such as transfers of assets) after allowable deductions is 75 per cent for capital receipts from dwellings and 50 per cent for capital receipts from land or other buildings held within the HRA.
- 2.18 We identified items of ineligible improvement expenditure, legal expenses relating to the prior year and improvement costs that were inconsistent with underlying records which were removed from the Capital Receipts Return. As a result of these errors, an additional £318 was payable by the Council and the Return was amended to reflect this.
- 2.19 It is recommended that the Council ensures that expenditure incurred is eligible for deduction, as stated in the certification instruction, that it is recorded in the correct period and at the correct amount.

Housing subsidy return

- 2.20 Housing authorities are entitled to Housing Revenue Account subsidy based on a calculation made by the DCLG to address any shortfall between expenditure and income on a notional Housing Revenue Account amount. From 1 April 2012, the self-financing regime has replaced the housing subsidy system.
- 2.21 The draft return provided for audit provided for the Council's payment of £1.7 million to the Government because Medway is in 'negative subsidy' (collecting more in rent than the amount calculated by the DCLG needed to maintain Medway's housing stock). We noted that a number of cells incorrectly included one property in error. This was subsequently corrected and did not have any overall impact on the amount paid by Medway.
- 2.22 We also identified that the amount used to calculate the Council's capital financing requirement (CFR), did not include Heritage Assets. As a result, the CFR value as at 1 April 2012 was increased by £13,897,219. This did not have an overall impact on subsidy.

Teachers' pensions return

- 2.23 The Teachers' Pensions Scheme is a contributory pension scheme administered by the Teachers' Pensions (TP) department on behalf of the Department for Education (DfE). The Teachers' Pensions Regulations 2010, require employers to deduct contributions from teachers' salaries and submit amounts to TP with the employer contribution. Regulation 131 empowers the Secretary of State for Education to seek the necessary returns from employers.
- 2.24 The Regulations require pension contributions in respect of all scheme members employed by a local authority (LA) to be submitted to TP, which includes staff employed in LA maintained schools and other LA establishments such as social services, youth services or local authority training centres. Form TR17 is an annual summary statement containing pension contributions deducted and remitted in the year.
- 2.25 We identified errors in the compilation of the form affecting the contributions recorded within the "summary of contributions" balance in 'Part A' of the annual return. The error arose because the Council did not fully follow the requirement to exclude refunds made from contributions paid and to ensure that the "balance" in both Parts A & B (lines 2h(v) and 4h(v)), equal zero.
- 2.26 We recommend that a thorough review of the form is completed to help to reduce errors in the draft return submitted for audit.

Conclusion

- 2.27 The Council has taken steps to implement the recommendations raised in our 2010/11 grant claims and returns certification report. However, our 2011/12 audit has identified errors similar to those previously reported and further action is required.
- 2.28 Progress towards the recommendations included in our 2010/11 grant claims and returns certification report is shown at Appendix A. Where further action is required, recommendations have been restated at Appendix B.

3 Fees

3.1 The overall fee for the audit of grant claims was £45,000 and is in line with the planned amount. The fee reduced compared to the previous year, as shown below.

Claim	Actual fee year ended 31 March 2012 (£)	Actual fee year ended 31 March 2011 (£)
Housing and council tax benefit subsidy	23,800	22,429
National non-domestic rates return	4,800	6,083
Pooling of housing capital receipts return	5,100	5,570
Housing subsidy return	2,500	3,750
Teachers' pensions return	6,800	5,785
Sure start claim	-	3,463
Disabled facilities claim	-	4,348
HRA subsidy base data return	-	6,574
Grants report	2,000	2,000
TOTAL	£45,000	£60,002

Appendix A – Status of 2010/11 recommendations

Recommendations	Priority	Management response	Responsibility	Timing	Progress
Housing and council tax benefit subsidy					
The Council does not systematically check the documentation for persons claiming War Enablement Pension. In one instance the Pension documentation provided was dated 2005.	High	The Council should review all modified schemes that include a War Enablement Pension to ensure the documentation to support the Pension is up to date.	Finance team (CFO)	Immediate	Implemented
Claim accuracy					
Our audit work identified some inconsistencies between the draft claim forms provided to audit and underlying records. Specifically, the NNDR return and the teacher's pension return required a number of amendments due to inconsistencies with underlying records.	High	The Council's system of management review should be consistently applied before claims and returns are submitted to external audit. In particular, the NNDR return and the teacher's pensions return should be reviewed ensure the claim form submitted to audit is consistent with underlying records in all areas of the claim.	Finance team (CFO)	Immediate	Partially implemented

Appendix B – 2011/12 action plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Housing and council tax benefit subsidy					
<p>Non HRA rent rebate</p> <p>There were 21 cases where claimants had transferred from non HRA properties to either HRA or rent allowance properties. The transfer between property type created overpayments within non HRA benefit expenditure. However the overpayment recorded in the claim had been understated.</p>	<p>We recommended that the Council review procedures to ensure all expenditure is included within overpayment cells.</p> <p>The Council has now amended its procedures, provided new guidance to the assessment team and followed this up with additional sample checks to reinforce the changes to ensure this issue does not occur in the future.</p>	High	Procedures have already been amended, provided new guidance to the assessment team and followed this up with additional sample checks to reinforce the changes to ensure this issue does not occur in the future.	Finance Team (CFO)	Immediate
<p>Non HRA rent rebate</p> <p>We identified four cases where expenditure above the local housing authority (LHA) cap had not been included in the claim.</p>	<p>We recommended that the Council change its procedures to ensure all expenditure above the LHA cap is included in the claim.</p> <p>Officers have informed us that procedures have been updated to ensure expenditure above the LHA capped amount is identified, and correctly included in the claim, when a new benefit claim or a change in circumstance has occurred.</p>	High	Procedures have been updated to ensure expenditure above the LHA capped amount is identified, and correctly included in the claim, when a new benefit claim or a change in circumstance has occurred. It should be noted that these cases have no financial affect on the subsidy claim whatsoever (0% subsidy)	Finance Team (CFO)	Immediate
<p>Assessments and mis-classifications</p> <p>We identified a number of incorrect benefit assessments and misclassifications of</p>	<p>We recommend that the Council ensures that sufficient training is provided to the assessments team and</p>	High	Our continual programme of training and checking will cover these areas. However,	Finance Team (CFO)	Immediate

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
overpayments across all benefit types.	that additional checks are carried out.		this is a high volume and complex area of assessment		
Pooling of housing capital receipts					
We identified items of ineligible improvement expenditure, legal expenses relating to the prior year and improvement costs pooled that were inconsistent with underlying records.	We recommend that the Council ensures that expenditure incurred is eligible for deduction, as stated in the certification instruction, that it is recorded in the correct period and at the correct amount.	High	Agreed	Finance Team (CFO)	Immediate
Teachers' pensions return					
We identified errors in the compilation of TR17 form, namely the contributions paid that are recorded within "summary of contributions" in Part A. The certification instruction requires the Council to exclude refunds made from contributions paid to ensure that the "balance" in both Parts A & B (lines 2h(v) and 4h(v)), equal zero.	We recommend that a thorough review of the form is completed to help to reduce errors in the draft return submitted for audit.	High	Agreed	Operations Manager (HR)	Immediate