

AUDIT COMMITTEE

20 MARCH 2014

EXTERNAL AUDIT GRANT CLAIM REPORT

Report from: Mick Hayward, Chief Finance Officer

Summary

This report and appendix presents the work carried out by BDO, the council's external auditor, in respect of the certification of grant claims for the financial year ended 31 March 2013. 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 is a matter for the Audit Committee.

2. Background

- 2.1 BDO, 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 total value of these returns for the financial year 2012/2013 was £220.4 million and represented a substantial source of income and expenditure.
- 2.3 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 2013. The external auditor's report also provides details of the Council's progress against the agreed 2011/2012 actions.
- 2.4 A high level summary of the findings is set out in the following sections.

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 A number of errors were identified during the course of the initial testing of 80 claimant cases across all types of benefit, which resulted in additional cases

being reviewed. On completion of the additional testing, it was concluded that the following entries in the subsidy return were incorrect and either required amendment or the external auditor was required to extrapolate the error over the relevant 'cell populations':

- **Non HRA expenditure type misclassification** - Testing of non HRA short-term leased or self contained licensed accommodation found a number of cases where expenditure had been incorrectly recorded as expenditure above the appropriate Local Housing Allowance rate. The total value of the error was £370 (out of a 'cell' value of £154,134) and this amount was corrected in the 2012/2013 subsidy claim.
- **Rent allowance expenditure type misclassification** – As a consequence of further testing a number of cases were identified where the claims had been incorrectly categorised. These errors were extrapolated across the total values and a potential misclassification error of £50,278 was reported.
- **Rent allowance overpayments misclassification** - Testing of rent allowance overpayment cases found five cases that had been misclassified as eligible overpayments when they should have been LA and administration delay overpayments and one case where income had been duplicated and should have been included as normal entitlement. These errors were extrapolated across the total value and a potential reporting error of £150,987 was reported.
- **Council tax benefit overpayments misclassification** - The auditors identified 14 cases where council tax benefit eligible overpayments had been misclassified. These errors were extrapolated across the total value and a potential reporting error of £84,855 was reported.
- **Modified local schemes** - Initial testing identified four council tax benefit cases where benefit had been underpaid and one rent allowance case where benefit had been underpaid. The impact of these errors resulted in an underpayment of £651 relating to council tax benefit and an underpayment of £3,946 relating to rent allowances. The additional testing identified one case where rent allowance benefit had been overpaid by £217 because the carers premium had been input twice. This error was extrapolated across the total value and a potential overstated of £429 was reported.

3.3 The above information was provided in the External Auditor's qualification letter to the Department of Work and Pensions (DWP). The DWP wrote to the Council on 28 January 2014 to confirm the amount payable to the Council was £123,273,628 as a result of the qualification issues noted above. This is an increase in subsidy of £40,097 compared to the auditor certified grant claim.

4. National Non-Domestic Rates Return

4.1 The Council is required, on an annual basis, to calculate its contribution to the centrally administered non-domestic rates pool. The value of the contribution must be notified to the Secretary of State, which is subject to certification.

4.2 The auditors identified two instances where amounts totalling £49,668 had been deferred that should have been payable to the national pool.

5. Pooling of Housing Capital Receipts Return

- 5.1 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 return was certified without amendment or qualification.

6. Teachers' pensions return

- 6.1 The return was certified without amendment or qualification.

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 external auditors fees for the 2012/13 grant audit total £23,950 (2011/12 £45,000).
- 7.3 There are no legal implications.

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 2012/2013 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



MEDWAY COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2013

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INTRODUCTION

PURPOSE OF THE REPORT

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2013.

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

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.

After completion of the tests contained within the CI the grant claim or return 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. Sample sizes used in the work on the housing and council tax benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

A summary of the fees charged for certification work for the year ended 31 March 2013 is shown to the right.

Appendix I of this report shows the Council's progress against the agreed 2011/12 actions.

Appendix II of this report shows the action plan to improve the arrangements for preparing grants and other returns as a result of the findings from the 2012/13 audit and carried forward actions from 2011/12.

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

CLAIM OR RETURN

PLANNED FEE £

OUTTURN FEE £

Housing and council tax benefit subsidy	13,135	13,135
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National non domestic rates return	3,740	3,740
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Pooling of housing capital receipts	3,485	3,485
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Teachers' pensions return	3,590	3,590
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TOTAL FEES	23,950	23,950
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There have been no variations of the scale fee, set by the Audit Commission, as a result of the work undertaken.

KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year to 31 March 2013. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided.

An action plan in respect of these matters is included at Appendix II of this report.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing and council tax benefit subsidy	123,232,531	Yes	Yes	See responses from DWP below
National non-domestic rates return	84,825,658	No	Yes	Contribution to the pool increased by £49,668
Pooling of housing capital receipts	1,335,510	No	No	-
Teachers' pensions return	11,026,905	No	No	-

HOUSING AND COUNCIL TAX BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit and council tax benefit schemes are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions.

FINDINGS AND IMPACT ON RETURN

A number of errors were identified during the course of the initial testing of 80 claimant cases across all types of benefit which resulted in additional cases (known as "40+" testing) being reviewed. The testing was completed by the Council's external contractors and our re-performance of their work agreed with their conclusions.

On completion of the additional testing, we concluded that the following entries in the subsidy return were incorrect and either required amendment or we were required to extrapolate the error over the relevant cell populations. This information was provided in our qualification letter to the Department of Work and Pensions (DWP).

Non HRA expenditure type misclassification

Testing of cases recorded as short term or self-contained accommodation expenditure above the appropriate Local Housing Allowance (LHA) rate in cell 15 found seven cases (with a value of £6,727) that should have been included as expenditure up to or below the appropriate LHA rate in cell 14. The total value of the error was £370 and this amount was corrected in the 2012/13 subsidy claim.

Rent allowance expenditure type misclassification

Initial testing of rent allowance cases identified one case where the claimant had been incorrectly categorised as a 'protected group'.

As a result of this error an amount of £1,479.68 had been included as expenditure on that part of the weekly eligible rent above the rent officer's determination on a claim where restrictions could not be made under Regs. 13 or 13ZA (cell 096), when it should have been included as expenditure on that part of the weekly eligible rent above the rent officer's determination on a claim where restrictions could be made under Regs. 13 or 13ZA (cell 097). Given the nature of the population and the error found, an additional sample of 40 cases was tested from cell 096. A further 40 cases were also tested from cell 097 as it was likely similar errors could occur in this cell.

The additional testing identified five cases in cell 096 and five cases in cell 097 where the claims had been incorrectly categorised (i.e. included in cell 096 and should have been cell 097 and 'vice versa').

Total errors were confirmed as cell 96 overstated by £8,372 (correspondingly cell 97 understated by the same amount) and cell 97 overstated by £4,308 (correspondingly cell 96 understated by the same amount). These errors were extrapolated across the total values included in cell 96 and cell 97 and we reported, to the DWP, that cell 96 was potentially overstated by £50,278 and cell 97 understated by the same amount.

Rent allowance overpayments misclassification

Initial testing of rent allowance eligible overpayments included in cell 114 found one case that should have been recorded as an LA error and administration delay overpayment in cell 113 (error value £391), meaning that subsidy should not have been claimed on this amount. Testing of an additional 40 rent allowance overpayment cases found a further four cases that had been misclassified as eligible overpayments when they should have been LA and administration delay overpayments (error value £755) and one case where income had been duplicated and should have been included as normal entitlement in cell 102 (error value £88). These errors were extrapolated across the total value included within cell 114 and we reported, to the DWP, that cell 114 was potentially overstated by £150,987, cell 113 understated by £140,238 and cell 102 understated by £10,749.

Council tax benefit overpayments misclassification

Initial testing of council tax benefit eligible overpayments included in cell 148 found two cases that should have been recorded as LA error and administration delay overpayments in cell 147 (error value £25), and two cases that should have been recorded as technical overpayments in cell 149 (error value £11), meaning that subsidy should not have been claimed on these amounts. Testing of an additional 40 council tax benefit overpayment cases from cell 148 found a further two cases that should have been recorded in cell 147 (error value £73), and eight cases that should have been recorded in cell 149 (error value £462). These errors were extrapolated across the total value included within cell 148 and we reported, to the DWP, that cell 148 was potentially overstated by £84,855, cell 147 understated by £14,614 and cell 149 understated by £70,241.

Modified local schemes

Initial testing identified four council tax benefit cases where benefit had been underpaid due to:

- one claimant's incapacity benefit ceased as Unemployability Supplement was awarded which increased War Disablement Pension. Incapacity benefit was correctly stopped but War Disablement Pension was not amended
- part of the one claimant's War Widows Pension (Aged Related addition) not being disregarded
- incorrect input of one claimant's Pension Credits
- incorrect input of one claimant's War Disablement Pension.

HOUSING AND COUNCIL TAX BENEFIT SUBSIDY (CONTINUED)

FINDINGS AND IMPACT ON RETURN

Testing of the initial sample also identified one rent allowance case where benefit had been underpaid because the War Disablement Pension was not amended when the claimant was awarded Unemployability Supplement.

The impact of these errors resulted in an underpayment of £651 relating to council tax benefit and an underpayment of £3,946 relating to rent allowances.

As there is no eligibility to subsidy for benefit which has not been paid, the five underpayments identified do not affect subsidy and were not, therefore, classified as errors for subsidy purposes. However, because errors could result in overpayments additional testing was carried out.

No further underpayments were identified and similar findings were reported, to the DWP, in the prior year.

The additional testing did identify one case where rent allowance benefit had been overpaid by £217 because the carers premium had been input twice. This error was extrapolated across the total value included within cell 214 and we reported, to the DWP, that cell 214 was potentially overstated by £429.

Responses from DWP

The DWP wrote to the Council on 28 January 2014 to confirm the amount payable to the Council was £123,273,628 as a result of the qualification issues noted above. This is an increase in subsidy of £41,097 compared to the auditor certified grant claim.

NATIONAL NON-DOMESTIC RATES RETURN

FINDINGS AND IMPACT ON RETURN

The Council is a billing authority and is required, on an annual basis, to calculate its contribution to the centrally-administered non-domestic rates pool. The value of the contribution must be notified to the Secretary of State on form NNDR3, which is subject to certification.

Our testing identified two instances where amounts totalling £49,668 had been deferred that should have been payable to the national pool. As a result the deferral scheme amount included in line 13 part II was reduced by £49,668. A corresponding adjustment was made to increase the gross amount payable to the pool (line 1 part I), and contribution to the pool (line 14 part I), by £46,668.

POOLING OF HOUSING CAPITAL RECEIPTS

FINDINGS AND IMPACT ON RETURN

Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.

The return was certified without amendment or qualification. This is an improvement on the prior year.

TEACHERS' PENSIONS RETURN

Local authorities which employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to Teachers' Pensions (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYCd, which the Council is required to submit to Teachers' Pensions. Form EOYCd is subject to certification.

FINDINGS AND IMPACT ON RETURN

The return was certified without amendment or qualification.


APPENDIX I: STATUS OF 2011/12 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	PROGRESS
STATUS OF 2011/12 RECOMMENDATIONS				
Housing and council tax benefit subsidy claim				
<p>Non HRA rent rebate</p> <p>We recommended that the Council review procedures to ensure all expenditure was included within overpayment cells.</p> <p>We noted that the Council had 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 did 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)	Implemented
<p>Non HRA rent rebate</p> <p>We recommended that the Council changed its procedures to ensure all expenditure above the LHA cap was included in the claim.</p> <p>We noted that officers had informed us that procedures had already been updated to ensure expenditure above the LHA capped amount was identified, and correctly included in the clam, when a new benefit claim or a change in circumstance had occurred.</p>	High	Procedures have been updated to ensure expenditure above the LHA capped amount is identified, and correctly included in the clam, 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 (nil subsidy)	Finance Team (CFO)	Implemented
<p>Assessments and mis-classifications</p> <p>We recommended that the Council ensured that sufficient training was provided to the assessments team and that additional checks were carried out to reduce the number of incorrect assessments and misclassification.</p>	High	Our continual programme of training and checking will cover these areas. However, this is a high volume and complex area of assessment	Finance Team (CFO)	Carry forward to 2012/13

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	PROGRESS
STATUS OF 2011/12 RECOMMENDMENTS (CONTINUED)				
Pooling of housing capital receipts				
We recommended that the Council ensured that expenditure incurred was eligible for deduction, as stated in the certification instruction, that it was recorded in the correct period and at the correct amount.	High	Agreed	Finance Team (CFO)	Implemented
Teachers' pensions return				
We recommended that a thorough review of the form was completed to help reduce errors in the draft return submitted for audit.	High	Agreed	Operations manager (HR)	Implemented

APPENDIX II: 2012/13 ACTION PLAN

CONCLUSIONS	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
RECOMMENDATION 2012/13					
Housing and council tax benefit subsidy					
Testing of non HRA short-term leased or self-contained licensed accommodation found a number of cases where expenditure had been recorded as expenditure above the appropriate LHA rate that should have been recorded as expenditure up to or below the LHA rate.	Expenditure for non HRA rent rebate claimants should be thoroughly reviewed to ensure entitlement is appropriately reflected in the subsidy claimed.	High	This was a system error (i.e. affected all Northgate users in England and Wales and not unique to Medway). This error occurs only in a very limited scenario. Northgate have confirmed this is a 'system bug' and will provide a script to identify cases for 2013/14 grant claim. As at February 2014 this script has not yet been issued. It is difficult to identify such cases without the script however this is low risk & equated to £370 out of a cell value of £154,134	Finance Team (CFO)	Carry forward to 2013/14
We identified a number of incorrect benefit assessments and misclassifications of expenditure and overpayments across all benefit types. We reported the same conclusion in 2011/12.	As per 2011/12, we recommend the Council ensures that sufficient training is provided to the assessments team and that additional checks are carried out to reduce the number of incorrect assessments and misclassifications.	High	New additional training guidance and procedures issued to assessment team. Targeted checking has been undertaken following on from last year's recommendation with no major issues identified.	Finance Team (CFO)	Implemented
National non-domestic rates return					
Testing identified amounts that had been deferred that should have been payable to the pool in 2012/13.	We recommend that the Council carry out specific checks on deferred amounts recorded in the return to ensure that they have been correctly deferred to future years.	High	Agreed. This was due to an error in a script when interrogating the system. This has been corrected and sample checks will be undertaken	Finance Team (CFO)	Implemented



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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