

AUDIT COMMITTEE

19 MARCH 2015

EXTERNAL AUDIT GRANT CLAIM REPORT

Report from: Phil Watts, 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 2014. 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 2013/2014 was £116.7 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 2014. The external auditor's report also provides details of the Council's progress against the agreed 2012/2013 recommendations.
- 2.4 A high level summary of the findings is set out in the following sections.

3. Housing Benefit Subsidy Claim

- 3.1 On behalf of the Department for Work and Pensions detailed testing of a sample of housing benefit cases across all benefit types was undertaken. Council tax benefit is no longer part of the subsidy arrangements following the localisation of council tax reduction schemes.

3.2 A number of errors were identified during the course of the initial testing of 60 claimant cases, which resulted in 168 additional cases being reviewed. On completion of the additional testing, BDO issued a qualified audit certificate and quantified the effect of the errors identified on the Council's entitlement to subsidy (based on extrapolations) in a letter to the Department of Work and Pensions (DWP). The Council is awaiting the outcome of the DWP review of the qualification letter on its final subsidy amount for the year. A summary of the audit findings is given below:

- **Benefit software reconciliation** – The Authority had made adjustments to the information produced by the benefits software in order to complete the subsidy claim. Differences of £2,697, £4,171 and £137,423 were identified. BDO concluded that the subsidy form was correct in relation to these items but the Council has been unable to resolve the issue with the software supplier.
- **HRA rent rebates – eligible overpayments** – Based on extrapolated errors BDO estimated the Council overstated the amount of eligible payments by £6,890; understated local authority error by £5,038 and understated technical error by £1,852. Eligible overpayments attract 40% subsidy whereas local authority and technical errors are not eligible for subsidy.
- **Non-HRA Rent Rebates** – Errors found testing a sample of calculations of the effects of claimants' income resulted in extrapolated errors of £140 overstatement of HRA rent rebate expenditure, and corresponding understatement of local authority error. £199 of underpayments was also found and these should be adjusted in the 2014/15 subsidy claim.

Two claimant dates of birth were input incorrectly but with no impact on subsidy.

From a sample of 60 cases one short term leased accommodation case was found to have been incorrectly classified as a non-HRA rebate bed and breakfast case. Extrapolation errors were calculated at £8,125 understated expenditure on cell 012 and corresponding overstatement on cell 014, overstated expenditure of £5,797 on cell 013 and corresponding understated on cell 015. All these cells attract 100% subsidy.

The council incorrectly included £141 in cell 013 rather than cell 012 because the Northgate system processes certain transactions incorrectly for subsidy purposes. Further testing of the amounts included in these cells was not possible due to limitations of the Northgate system. The auditors concluded that it was possible for similar errors to be included in cells 014 and 015.

There were misclassifications of overpayments between those eligible for subsidy and local authority error which does not attract subsidy. Based on extrapolation BDO estimate that eligible overpayments were overstated and local authority error understated by £2,515.

BDO found that Medway had misclassified a local authority error overpayment, eligible for 40% subsidy as expenditure attracting full subsidy. Based on extrapolation they concluded that amounts of £960 and £145 respectively had been incorrectly included in the claim for 100% subsidy rather than 40%.

4. Pooling of Housing Capital Receipts Return

- 4.1 The Council is required to pay a proportion of housing capital receipts into the national pool operated by the Department for Communities and Local Government. The return was certified without amendment or qualification.

5. Teachers' pensions return

- 5.1 The return was certified without amendment or qualification.

6. Financial and Legal Implications

- 6.1 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.

- 6.2 The external auditors fees for the 2013/14 grant audit total £16,341(2012/13 £23,950).

- 6.3 There are no legal implications.

7. Risk Management

- 7.1 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.

8. Recommendation

- 8.1 That the Audit Committee notes the external auditor's grant audit report for 2013/2014, as set out at Appendix 1, 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