

AUDIT COMMITTEE

22 MARCH 2016

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 2015. 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 of the Audit Committee, receipt of the grant claim audit report is a matter for this 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 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 2015. The external auditor's report also provides details of the Council's progress against the agreed 2013/2014 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.
- 3.2 A number of errors were identified during tests carried out and further tests undertaken. 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:

- **Non HRA Rent Rebates** – As in previous years the auditors identified a problem with the way the Northgate system processes part week non-HRA rent rebates. Three cases of error were found but BDO were unable to obtain data from the software to facilitate further testing. The matter has been included in the Qualification Letter.
- **HRA Rent Rebates – eligible overpayments** – Overpayments were found to be misclassified between those which attract subsidy and those that do not. The result was that the claim submitted for audit was overstated by £9,771. The claim was amended accordingly.
- **Rent Allowances** – The auditors found two cases in which earned income had been incorrectly applied in benefit calculations. In one of these cases an overpayment had resulted and in the other an underpayment. Further testing was carried out and total overstated benefit expenditure of £16,224 calculated by extrapolation. This error has been reported to the DWP in the Qualification Letter which may result in a decrease in subsidy of £6,940.

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 2014/15 grants audit total £19,650 (2013/14 £16,341).

- 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 2014/2015, 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.

Lead officer contact

Name Phil Watts
Job Title Chief Finance Officer
Telephone: 01634 332220 email: phil.watts@medway.gov.uk

Background Papers: None

Appendices:

Appendix 1 – BDO Report on Grant Claims and Returns Certification