

## **AUDIT COMMITTEE**

**11 MARCH 2010**

### **EXTERNAL AUDIT'S GRANT CLAIM REPORT**

Report from: Mick Hayward, Chief Finance Officer

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#### **Summary**

This report and attached letter presents the work carried out by PKF, our external auditors in respect of the certification of grant claims for the financial year ending 31 March 2009. The report is presented to this 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 this committee.

#### **2. Background**

- 2.1 Independent external auditors are responsible for auditing and reporting the outcome of their grant claim audit work. This is the first year that a report covering this work has been placed before this committee. The external auditor's report covers the financial year 2008/2009.
- 2.2 The letter summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2009. The audit of grant claims was conducted between July and December 2009 in accordance with the deadlines specified by the Audit Commission.

#### **3. Main Issues**

- 3.1 The attached letter sets out the main issues arising, the external auditor's recommendations for improvement and management's response. None of the claims audited were qualified.

#### **4. Financial and Legal Implications**

- 4.1 The financial implications are contained in the body of the report. 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 this committee's terms of reference.

## **5. Risk Management**

- 5.1 Risks of future grant claims being inappropriately prepared will be mitigated by implementing the Council's response as set out in the action plan.

## **6. Recommendation**

- 6.1 That the Audit Committee accepts the external auditor's grant audit report for 2008/2009.

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### **Background Papers**

External Audit's grant audit report (attached)



Accountants &  
business advisers

**Medway Council**

**Grant Claim Certification for the  
year ended 31 March 2009**

February 2010

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### Action Plan

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

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They 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 Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

# 1 Key conclusions and recommendations

- 1.1 Our report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2009. Our audit of grant claims was conducted between July and December 2009 in accordance with the deadlines specified by the Audit Commission.
- 1.2 The Council's arrangements for preparing grant claims and other returns to Government departments are variable. The overall control environment cannot be fully relied on to produce claims and other returns in accordance with the guidance provided by grant paying departments.
- 1.3 The value of amendments made to individual claims was small in the context of the significant income the Council secures from grant claims and the other returns we are required to audit. The most significant amendment made in 2008/09 involved the Housing and Council Tax benefit subsidy claim. However, the situation arose following a review commissioned by the Chief Finance Officer into benefit entitlement. As a result of this work, officers notified us the Council's subsidy should be increased by £127,000 after submitting the draft claim to us for audit. We reviewed the Council's work and amended the claim accordingly.
- 1.4 The key issue arising from our work is the relatively high number of amendments made to individual claims as a result of our audit work. While we recognise the value of amendments made in 2008/09 is relatively low, arrangements for preparing claims and returns need to be strengthened in that:
- working papers and closing files prepared by officers do not consistently support the balances contained in the draft claims and returns provided to external audit and the relevant government department
  - the terms and conditions specified by government departments for grant awarded were not always fully followed
  - some claims contain basic arithmetical and transposition errors which required amendment before our audit certificate was finalised.
- 1.5 None of the claims we audited in 2008/09 were qualified. However, additional audit testing was required for claims prepared by the Finance department and the Housing department and we worked with officers to ensure amendments were made as appropriate.
- 1.6 An action plan containing our recommendations for improving the Council's arrangements for preparing grant claims and other returns is included at Appendix A. Our key recommendations are:
- ensure comprehensive working papers and closing files are prepared to support the balances included in the draft claims submitted to government departments and external audit
  - ensure the requirements of the Audit Commission's certification instructions to auditors, and the terms and conditions of grant awarded by government departments, are consistently understood and followed
  - develop and implement a system of management review, independent of the claim preparation process, to ensure basic arithmetical and transposition errors are identified, and consistency with underlying records, before the claim is submitted to external audit.

## 2 Background

- 2.1 Government departments rely on the external auditor's certification work to ensure grant claims and other returns are fairly stated and that expenditure incurred by local authorities in accordance with the terms and conditions agreed. Where external auditors cannot confirm the accuracy of subsidy claimed, the grant claim is certified with a qualification letter and there is a risk the government department may withhold subsidy until the qualification matter is resolved. This can adversely affect Councils' cash flow and resources.
- 2.2 At Medway, the value of claims and other returns certified in 2008/09 amounted to over £185 million. Claims and returns subject to audit are prepared mainly by the Housing department, the Finance department and the Education department. Claims are prepared by other Council departments though these are usually less than £100,000 in value and therefore outside the scope of the external auditor's certification work. For those claims with a value of between £100,000 and £500,000, we conduct only a limited review of the overall control environment before certifying the claim.
- 2.3 We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions issued by the Commission after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission. The cost of our audit work at Medway in 2008/09 was approximately £78,000.
- 2.4 After completion of the tests contained within the Certification Instruction the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, the claim may be qualified based on the audit testing completed.
- 2.5 The Housing and council tax benefit subsidy audit is an integral part of the Use of Resources assessment in considering the Council's data quality arrangements under the Audit Commission's COUNT principle (collect once use numerous times). The results of the integrated benefits work also contribute to the Audit Commission's risk assessment for the inspection of benefits services. Sample sizes and methodology for this work are prescribed by the Audit Commission.
- 2.6 The Audit Commission's September 2009 *Review of Arrangements for Certifying Claims and Returns* recommended that the findings from grant certification work be taken into account in the use of resources assessment. The guidance for key line of enquiry (KLOE) 2.4 which focuses on risks and internal control has been updated to reflect this and evidence from certification work may also be relevant to KLOE 1.1 (financial planning), KLOE 1.3 (financial reporting) and KLOE 2.2 (data quality). Consequently the outcome of our 2008/09 certification work, included within this report, will inform the use of resources assessment and Value for Money conclusion for the 2009/10 year.

### 3 Summary of certification

3.1 The table below identifies the certification status of the grant claims and returns audited for the year ending 31 March 2009:

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on subsidy £	Fee for the year ended 31 March 2009 £	Fee for the year ended 31 March 2008 £
<b>Housing department</b>						
Disabled facilities grant	£610,000	Unqualified	2	£0	£3,753	£2,860
HRA subsidy base data return (2010/11)	N/A*	Unqualified	3	N/A*	£8,740	£7,945
<b>Finance department</b>						
Pooling of housing capital receipts	£540,222	Unqualified	6	(£3,288)	£4,265	£3,335
Housing and council tax benefit subsidy	£88,672,240	Unqualified	1 (notified to audit)	£127,754	£39,138	£38,080
HRA subsidy (2008/09)	(£1,475,633)	Unqualified	6	(£2,009)	£8,033	£7,110
National non domestic rates return	£68,585,572	Unqualified	0	-	£4,958	£4,830
SEEDA statement of expenditure	£629,039	Unqualified	3	£0	£3,370	-
<b>Education department</b>						
Sure start	£5,330,509	Unqualified	0	-	£2,993	£2,715
Teachers Pensions	£18,391,492	Unqualified	2	£400	£2,860	£2,980
<b>Total</b>					<b>£78,110</b>	<b>£73,745</b>

\*N/A as claim does not give rise to grant payment

## Issues arising

- 3.2 While all of the claims audited were submitted to the relevant grant paying body with a standard audit certificate ('unqualified'), most claims were certified only after amendments had been made to correct errors identified by our audit work. In some instances, this certification was possible only after additional testing had been undertaken, with further audit enquiries being made of officers to resolve issues identified and ensuring appropriate corrections were made to the claim or return.
- 3.3 The Council therefore has variable arrangements in place for the accurate preparation of the required claims and returns, with particular improvement necessary for claims and returns prepared by the Finance department and the Housing department. The key issues arising from our work are shown below. In some cases the claims required amendment (see summary table above for details):
- working papers and closing files do not consistently support the balances contained in the draft claims and returns provided to external audit for review. This meant we undertook additional audit work and testing to ensure the following claims were prepared correctly:
    - Disabled Facilities Grant
    - Pooled Capital Housing Receipts
    - HRA Subsidy (2008/09)
    - HRA Subsidy Base Data Return (2010/11)-
  - claims and returns submitted to external audit did not consistently follow the terms and conditions of grant specified by government departments. Amendments were required to the following claims and returns accordingly:
    - Pooled Capital Housing Receipts
    - HRA Subsidy (2008/09)
    - SEEDA statement of expenditure
  - audit work identified transposition errors between the closing files prepared by officers and the draft claims submitted to government departments and external audit. The position affected the following claims:
    - HRA Subsidy Base Data Return (2010/11)
    - Teachers Pensions
  - basic arithmetical errors were found by auditors within the detailed claim form. While the overall expenditure stated was correct, the detailed analysis within the claim was incorrect for the following claims and returns:
    - Pooled Capital Housing Receipts
    - SEEDA statement of expenditure

## Impact on fees

- 3.4 The principal impact of the number and range of issues with the completion of the claims and returns has been an increase in the level of fees charged as all fees are based on the time taken to complete the work. Overall, our fees are £4,365 higher than in the prior year and £8,110 higher than our original estimate of £70,000.
- 3.5 In addition, as a result of its *Review of Arrangements for Certifying Claims and Returns*, the Audit Commission has mandated preparation of this Grants Report to raise the importance and profile of certification work and improve the standards of claims and returns prepared. The cost of this reporting is £6,000, is charged under section 28 of the Audit Commission Act 1998 and is calculated based upon the number of hours taken to draft, agree and finalise the report.



## 4 Conclusions

- 4.1 In order to improve arrangements for preparing and submitting claims and other returns to government departments, and to reduce the risk of government departments withholding subsidy claimed, the Council should:
- ensure comprehensive working papers and closing files are prepared to support the balances included in the draft claims submitted to government departments and external audit
  - ensure the requirements of the Audit Commission's certification instructions to auditors, and the terms and conditions of grant awarded by government departments, are consistently understood and followed
  - develop and implement a system of management review, independent of the claim preparation process, to ensure basic arithmetical and transposition errors are identified, and consistency with underlying records, before the claim is submitted to external audit.
- 4.2 A detailed Action Plan to secure improvement to arrangements in future years has been agreed with officers and is included in the Appendix to this report.

## Appendix A – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<b>Supporting papers</b> Working papers and closing files do not consistently support the balances contained in the draft claims and returns provided to external audit for review. This meant we undertook additional audit work and testing to ensure the claims were prepared correctly.	Ensure comprehensive working papers and closing files are prepared to support the balances included in the draft claims submitted to government departments and external audit.	High	<b>Pooled Capital Receipts</b> Officers will liaise with PKF to identify further work required  <b>Housing Subsidy</b> Officers will ensure consistent application of Capital Financing Requirement  <b>Disabled Facilities Grant Subsidy Base Data Return</b> Officers will liaise with PKF to identify further work required	Senior Accountant – Housing / PKF   Senior Accountant-Housing / Principal Accountant-Financial Support   Senior Accountant – Housing / Housing Dept / PKF	April 2010   April 2010   April 2010
<b>Claim requirements</b> Claims and returns submitted to external audit did not consistently follow the terms and conditions of grant specified by government departments. Amendments were required to the claims and returns accordingly.	Ensure the requirements of the Audit Commission's certification instructions to auditors, and the terms and conditions of grant awarded by government departments, are consistently understood and followed.	High	<b>Pooled Capital Receipts</b> Officers will liaise with PKF on treatment of late payment interest  <b>Subsidy Base Data</b> Officers will liaise with PKF to identify further work required  <b>SEEDA statement of expenditure</b> Officers will liaise with PKF to identify further work required.	Senior Accountant – Housing / PKF   Senior Accountant – Housing / Housing Dept / PKF   TBA	April 2010   April 2010   April 2010

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<p><b>Claim accuracy</b></p> <p>Audit work identified transposition errors between the closing files prepared by officers and the draft claims submitted to government departments and external audit.</p> <p>Basic arithmetical errors were found by auditors within the detailed claim form. While the overall expenditure stated was correct, the detailed analysis within the claim was incorrect for certain claims and returns.</p>	<p>Develop and implement a system of management review, independent of the claim preparation process, to ensure basic arithmetical and transposition errors are identified, and consistency with underlying records, before the claim is submitted to external audit.</p>	<p>High</p>	<p>These errors appear to be small in value and often within the analysis of a total rather than the total itself. These make management review difficult and time consuming. However, each grant claim will be reviewed by a principal accountant for 2009/2010 returns</p>	<p>Medway finance team</p>	<p>June - September 2010</p>