

## **AUDIT COMMITTEE**

**19 MARCH 2020**

### **EXTERNAL AUDIT GRANT CLAIM UPDATE REPORT 2018/19**

Report from: Phil Watts, Chief Finance Officer

Author: Andy McNally-Johnson, Finance Business Partner  
(Corporate Reporting)

#### **Summary**

This report presents an update as to the progress and summary of the work carried out by Grant Thornton, the Council's external auditor for 2018/19, in respect of the certification of grant claims for the financial year ended 31 March 2019. 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 a report on the progress and outcomes relating to the audit of grant claims is a matter for this Committee.

#### **2. Background**

2.1 Grant Thornton, as the Council's external auditor for 2018/19, provides a certificate on the accuracy of grant claims and returns to various government departments and other agencies. The firm act as agents of Public Sector Audit Appointments Limited (PSAA) in respect of the annual Housing Benefit Subsidy Claim. Assurance reviews are also undertaken outside of the PSSA regime in respect of the Pooling of Housing Capital Receipts Return and the Teachers' Pensions Return.

2.2 The total value of the returns certified for the financial year 2018/19 was £87.67m, comprising income of £87.93m of income and outgoings of £0.26m.

2.3 A summary of the findings is set out in the following sections.

### **3. Housing Benefit Subsidy Claim**

3.1 Grant Thornton certify the value of the subsidy claim using methodology and sample sizes prescribed by PSSA and Department for Work and Pensions (DWP).

3.2 Local authorities responsible for managing housing benefit 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.

3.3 Grant Thornton working as the Reporting Accountant were required to perform the specific tests requirements determined by the DWP on the defined sample basis as set out in the Housing Benefit Assurance Process (HBAP) reporting framework instruction and to provide a factual findings report to the council and the DWP.

3.4 The results of these tests are summarised below:

#### **3.4.1 Exceptions/Errors Found**

#### **3.4.2 Expenditure misclassification error below the Local Housing Allowance cap for short term leased accommodation**

3.4.2.1 In 2016/17 and 2017/18 it was identified that the council had incorrectly applied the Local Housing Allowance (LHA) cap. During their initial testing 17 cases (value £30,073.28) where the assessment was based on the expenditure classification were tested and no errors were identified.

3.4.2.2 However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where the assessment in the subsidy period was based upon the LHA cap was tested. This additional testing identified:

- 5 cases which resulted in a misclassification of expenditure in cells to a total of £158.15 in 2018/19

3.4.2.3 As a result of the additional testing it was discovered that subsidy caps were incorrectly classified, resulting in a required adjustment of £2,089.15. As expenditure was claimed at 100%, this resulted in the authority over claiming subsidy of £2,089 (rounded to the nearest whole pound).

#### **3.4.3 Expenditure misclassification error above the Local Housing Allowance cap for short term leased accommodation**

3.4.3.1 In 2016/17 and 2017/18 it was identified that the council had incorrectly applied the Local Housing Allowance (LHA) cap. During their initial testing 13 cases (value £8,445.40) where the assessment was based on the expenditure classification were tested and no errors were identified.

3.4.3.2 However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where the assessment in

the subsidy period was based upon the LHA cap was tested. This additional testing identified:

- 3 cases which resulted in a misclassification of expenditure in cells to a total of £485.45 in 2018/19

3.4.3.3 As a result of the additional testing it was discovered that expenditure was incorrectly classified, resulting in a required adjustment of £5,878.98. Subsidy in this area was initially claimed at 0%, and as a result of the adjustment subsidy has been under claimed by £5,879

#### **3.4.4 Expenditure Misclassification Error – Eligible Overpayments**

3.4.4.1 In 2016/17 and 2017/18 it was identified that the council had incorrectly classified expenditure as eligible overpayments when it was in fact the council's error. During their initial testing no errors were identified.

3.4.4.2 However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where the assessment in the subsidy period was based upon the LHA cap was tested. This additional testing identified:

- 10 cases which resulted in a misclassification of overpayment in cells to a total of £934.56 in 2018/19

3.4.4.3 As a result of the additional testing it was discovered that an overpayment was incorrectly classified, resulting in an extrapolated error of £9,002.05. This consists of £5,545.60, which should have been classified as Local Authority and administrative delay error overpayments, £424.63 DWP error overpayments (not recovered) and £3,031.82 qualifying expenditure not otherwise identified. The impact on subsidy was an overpayment of £144 (to the nearest whole pound); this is because initial subsidy rate applicable to the £9,002.05 was 40% resulting in overpaid subsidy of £3,600.82, less the movement of £424.63 and £3,031.82 to cells where the applicable subsidy rate is 100%. However, because the authority's total Local Authority and administrative delay overpayments were below the lower threshold (0.48% of total qualifying expenditure), £5,545.60 should have been claimed at 100% from the relevant cell, resulting in under claimed subsidy of £5,545 (to the nearest whole pound).

#### **3.4.5 Expenditure Misclassification Error – Eligible Prior Period Overpayments (Rent Allowance)**

3.4.5.1 In 2016/17 and 2017/18 it was identified that the council had incorrectly classified expenditure as eligible overpayments when it was in fact the council's error. During their initial testing no errors were identified.

3.4.5.2 However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where the assessment in the subsidy period was based upon the LHA cap was tested. This additional testing identified:

- 3 cases which resulted in a misclassification of prior period overpayment in cells to a total of £226.85 in 2018/19

3.4.5.3 As a result of the additional testing it was discovered that an overpayment was incorrectly classified, resulting in an extrapolated error of £23,849.29. This resulted in overpaid subsidy of £9,540 (to the nearest whole pound) as subsidy had been claimed at 40%. However, as the authority's total Local Authority and administrative delay overpayments were below the lower threshold (0.48% of total qualifying expenditure), following the movement subsidy was due at 100%, resulting in £23,849 being under claimed.

### 3.4.6 Overpaid Benefit earned Income Calculation Error – Rent Allowance Expenditure

3.4.6.1 In 2016/17 and 2017/18 it was identified that the council had incorrectly calculated earned income resulting on an overpayment of benefit. During their initial testing 3 cases (value £7,632.89) where the assessment was based upon earned income were tested and no errors were identified.

3.4.6.2 However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where the assessment in the subsidy period was based upon earned income were tested. This additional testing identified:

- 1 case which had resulted in an underpayment of housing benefit to a total of £0.38 in 2018/19 due to miscalculating the claimants earned income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect and has not, therefore, been classified as an error for subsidy extrapolation purposes.

3.5 In summary, the total adjustments to the original Housing Benefit Subsidy claim as notified to the council from the DWP as a result of the testing from the reporting accountant were as follows:

<b>Final Tested Claim 2018/19</b>	<b>Paragraph</b>	<b>£</b>
Expenditure misclassification – Below LHA Cap – Overpaid Subsidy	3.4.2.3	2,089
Expenditure misclassification – Eligible Overpayments – Overpaid Subsidy	3.4.4.3	144
Expenditure misclassification – Eligible Prior Period Overpayments – Overpaid Subsidy	3.4.5.3	9,540
<b>Total Overpaid Subsidy</b>		<b>11,773</b>
Expenditure misclassification – Below LHA Cap – Underpaid Subsidy	3.4.3.3	(5,879)
Reclassification of Local Authority Error Overpayments (Housing Revenue Account) – Understatement of Subsidy Claim	3.4.4.3	(5,546)
Reclassification of Local Authority Error Overpayments (Rent Allowance) – Understatement of Subsidy Claim	3.4.5.3	(23,489)
<b>Total Underpaid Subsidy</b>		<b>(35,274)</b>
<b>Net Subsidy Payment Due to Council</b>		<b>23,501</b>

3.6 The draft subsidy return provided for scrutiny by the reporting accountant recorded a total amount claimed as subsidy of £86,974,686.

#### **4. Pooling of Housing Capital Receipts**

4.1 The Council has a responsibility to submit its pooling return annual submission to the Ministry of Housing, Communities and Local Government (MHCLG).

4.2 The Council appointed Grant Thornton in its role as the Reporting Accountant to carry out procedures in accordance with ISRS 4400 on the 2018-2019 pooling return and produce a factual findings report.

4.3 A summary of the findings is listed on the next page:

Procedure	Findings
All relevant parts of the return been completed (in pounds and pence) and that the local authority's certificate bears the signature of the Responsible Finance Officer.	No exceptions or errors identified.
For a selection of items of expenditure chosen at random (from a number of acquisitions in the following table), Grant Thornton compared the amount declared to purchase invoices or completion statements and checked that the date on the purchase invoice/completion statement lies within the period stated on the 2018/19 pooling return.	No exceptions or errors identified.
For a selection of property sales spread throughout the year as noted in the council's property register (or equivalent), Grant Thornton compared the amount of the sales receipts (as appropriate depending on the quarter during which the sale took place) to the cash received per the bank statement; and checked that the date of receipt lies within the quarter in which the receipt was declared.	No exceptions or errors identified.
A random selection of four items of receipts included in the supporting breakdown provided by the Responsible Finance Officer, agreed the amount of the receipt declared to local authority's records of receipts from mortgages awarded.	No exceptions or errors identified.
Grant Thornton agreed the number of properties sold (on an annual basis) to the number of properties disclosed as being sold in the audited financial statements.	No exceptions or errors identified.
<p>Grant Thornton agreed the calculated amount in Valuation Sheet of the Authority's Debt Supportable Workbook to the Attributable Debt for that quarter on the 2018/19 pooling return.</p> <p>For a selection of dwellings sold in each quarter as recorded in cells 7, 37, 67 &amp; 97 of the 2018/19 pooling return, they:</p> <ul style="list-style-type: none"> <li>• compared the archetypes listed in the Debt Supportable Workbook to the archetype attributes of the dwellings as recorded in the local authority's property records;</li> <li>• compared the bedroom weightings listed in the Debt Supportable Workbook to the bedroom weightings attributes of the dwellings as recorded in the local authority's property records;</li> <li>• compared the capital valuations the Debt Supportable Workbook to the capital valuations attributes of the dwellings as recorded in the local authority's property records;</li> </ul>	No exceptions or errors identified.
For a selection of items of expenditure incurred by the local authority, Grant Thornton checked whether the expenditure fell within the definition of "development costs".	One error identified in two cells both being overstated by £0.01 each so overall an overstatement of £0.02.

- 4.4 For all management explanations related to the exceptions and errors noted, we have obtained representations from the Responsible Finance Officer.
- 4.5 The draft pooling of housing capital receipts return provided for scrutiny by the reporting accountant recorded a total amount paid to the MHCLG of £263,951.20, with £955,848.80 being kept by the Council, of which £610,364.91 has the limitation of only being available to fund replacement social housing.

## 5. Teachers' Pension Return

- 5.1 The process for the certification of this return has been delayed as appropriate information has not been made available to Grant Thornton.
- 5.2 The Payroll Team has seen a complete change not only with its whole management team but with all of the pensions team. As a result it has been a challenging time within the team to recover the lost knowledge but it is anticipated that the appropriate reports will be available to the auditors by the middle of March 2020.
- 5.3 Discussions are ongoing with Grant Thornton as to the next steps to be taken to ensure the certification of this return takes place at the earliest opportunity.

## 6. Risk management

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
Incorrect Grant Payments/ Receipts	That future grant claims are not prepared correctly.	Risks of future grant claims being inappropriately prepared will be mitigated by continuing to improve procedures and complying with guidance provided by the appropriate authority overseeing the grant/pension claim form.	E3
Budget pressure	The budget for other fees has been agreed with Grant Thornton; Teachers' Pension Return is still to be completed and therefore any additional fee would result in a budget pressure.	It will be necessary to work to identify compensating savings within Business Support and Centralised Service budgets.  The Finance Division work to ensure that the statements accurate and supported by high quality working papers to minimise the risk of additional fee being charged.	E3

## **7. Financial implications**

- 7.1 The external auditors fees for the 2018/19 grants certification total £34,300 (2017/18 £34,886).
- 7.2 Whilst both Housing Subsidy (£26,900) and Pooling of Housing Capital Receipts (£3,200) have been completed, the estimated cost of the Teachers' Pension Return certification (£4,200) may still be subject to a further variation.

## **8. Legal implications**

- 8.1 There are no legal implications arising from this report.

## **9. Recommendations**

- 9.1 Members note the latest progress and outcomes relating to the certification of grant claims by the reporting accountant for 2018/19.

### **Lead officer contact**

Andy McNally-Johnson, Finance Business Partner (Corporate Reporting), Finance Strategy, Gun Wharf, Chatham.

Telephone 01634 333552

E-mail [andy.mcnallyjohnson@medway.gov.uk](mailto:andy.mcnallyjohnson@medway.gov.uk)

### **Appendices**

None

### **Background papers**

There are no background papers relating to this report.