

AUDIT COMMITTEE

29 MARCH 2011

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 2010. 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. The external auditor's report covers the financial year 2009/2010.
- 2.2 The letter summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2010. The audit of grant claims was conducted between July and December 2010 in accordance with the deadlines specified by the Audit Commission.

3. Main Issues

- 3.1 The attached report sets out the main issues arising, the external auditor's recommendations for improvement and management's response.
- 3.2 Two grant claims received a qualified opinion, being the Housing & Council Tax Benefit Subsidy claim and the HRA subsidy base return for 11/12. The former was qualified because the Council's adopted policy, in respect of Single Persons Discount, was deemed contrary to the auditor's certification instructions. This anomaly has now been addressed. The HRA subsidy return is not one which gives rise to a grant payment but measures will be taken to ensure that supporting papers and calculations are properly verified prior to submission.

- 3.3 PKF have recommended that this committee receives a further report, detailing progress made on recommendations, prior to the commencement of the audit of 2010/11 returns. Officers will also be working with PKF to ensure that officer concerns over their timetabling and resource availability, for the grant audit process, are also considered.

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.
- 4.2 The external auditors fees for the 2009/2010 grant audit total £85,910 (2008/09 £78,110), as per the table at Paragraph 3.1 of the attached report. A further fee of £2,000 is payable for production of the report.

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 2009/2010 and agree that a further report be submitted to the next meeting of this committee, detailing progress made in response to the recommendations made.

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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 2010**

February 2011

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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 key issues arising from the certification of grant claims and other returns to government departments ('returns') for the financial year ending 31 March 2010. Our audit of grant claims was conducted between July and December 2010 in accordance with the timetable specified by the Audit Commission.
- 1.2 As in prior years, our overall conclusion is the Council's arrangements for preparing grant claims and other returns are variable. The Council has implemented some of the recommendations we made following our audit of grant claims in 2009, though the application of management review procedures is inconsistent. The overall control environment therefore cannot be fully relied on to produce claims and other returns in accordance with the guidance provided by grant paying departments.
- 1.3 While the monetary value of amendments made to grant entitlement is relatively small, our audit work identified some errors in preparing grant claims and other returns and additional audit procedures were required accordingly.
- 1.4 The more significant issues arising from our work involved the audit of the Housing and Council Tax benefit subsidies claim and the Teacher's Pension (annual) return, as shown below.

Housing and Council Tax benefit subsidies claim

- 1.5 The value of Housing and council tax benefit subsidy claimed by the Council in 2009/10 amounted to £104.6 million. The Audit Commission specifies the work auditors must complete in auditing the claim. The work is complex and its scope is wide. Auditors must confirm benefit has been calculated correctly and in accordance with the Government's regulations. The work involves reviewing a minimum number of benefit cases (at Medway 80 cases were initially reviewed in detail across all benefit types). PKF is reliant upon the support of officers to complete the audit of the subsidies claim. In particular, gaining an understanding of the operation of the 'Northgate' benefits system involves a significant commitment of officer time and resources we are grateful to receive.
- 1.6 Our audit of the initial sample of (80) cases found minor errors made by staff in processing benefit. In such circumstances, the Audit Commission requires auditors to extend sample sizes and consider the impact on their overall conclusions. Based on our extended sample, we concluded the nature of the errors was isolated, with a low monetary value and no further action was necessary. The time taken to complete additional audit procedures, and the delay in commencing our detailed review of cases, meant the deadline for submitting the audited claim to the government department was missed. The Department of Work and Pensions (DWP) therefore decided to withhold subsidy of £457,000 due in December 2010 until our audit was completed. We understand the DWP has now paid the outstanding amount after receiving the audited claim on 23 December 2010. We have agreed with the Chief Finance Officer a more robust timetable for completing our audit work in 2010/11 to minimise the disruption to officers, to reduce the audit fee involved and to ensure stated deadlines are met.
- 1.7 We also found the Council's policy for awarding Single Person's Discount to council taxpayers did not fully follow the Audit Commission certification instructions to auditors. While the Council disagrees with our conclusion, the government department (the DWP) has announced its intention to recover subsidy of £43,500 as a result of our audit qualification.

Teacher's Pension (annual) return

- 1.8 The audit of the Teacher's Pension (annual) return was problematic because basic errors were made in preparing the return submitted to audit. Five separate amendments were made to the claim, the most significant involving the understatement of the 2009/10 teacher's payroll cost by £67.5 million because a transposition error was made in preparing the claim.

The Council recognises its arrangements for reviewing the reasonableness and accuracy of such returns should be more consistently applied.

- 1.9 The amendments made to individual claims as a result of our audit work meant some additional resource, involving officers and auditors, was necessary to complete the certification of grant claims and returns. Most issues identified by our work did not significantly affect the Council's entitlement to grant, though as highlighted at paragraph 1.7, the DWP is expected to recover subsidy previously paid of £43,500. The key issues arising from our work are:
- working papers and closing files prepared by officers did not consistently support the balances contained in the draft claims and returns provided to external audit and the relevant government department
 - some claims contained arithmetical and transposition errors which required amendment before our audit certificate was finalised.
- 1.10 Following our audit work, two of the 2009/10 claims were qualified (see table in section 3 for details) and additional audit testing was required for claims prepared by the Finance department and the Housing department.
- 1.11 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 recommendations include ensuring:
- comprehensive working papers and closing files are prepared to a consistently high standard to support the balances included in the draft claims submitted to government departments and external audit
 - the Council's system of management review is consistently applied before claims and returns are submitted to external audit.
- 1.12 It is also recommended the Audit Committee receives a report from officers on the progress made in implementing our recommendations in advance of preparing grant claim and other returns required for the 2010/11 financial year. PKF will also provide an update on the action we have taken to ensure the efficient completion of our audit of grant claims and other returns.

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 is 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 2009/10 amounted to over £200 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 2009/10 was £85,910.
- 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.

3 Summary of certification

3.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2010:

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on subsidy £	Fee for year ended 31 March 2010 £	Fee for year ended 31 March 2009 £	Variance in fees %
Pooling of housing capital receipts	£719,863	Unqualified	0	-	£3,130	£4,265	(26.6%)
Housing and council tax benefit subsidy	£104,696,006	Qualified	2	(£8,609)	£47,843	£39,138	22.2%
Disabled facilities grant	£648,000	Unqualified	0	-	£3,003	£3,753	(19.9%)
National non domestic rates return	£69,029,749	Unqualified	0	-	£5,088	£4,958	2.6%
HRA subsidy (2009/10)	(£1,510,706)	Unqualified	2	£0	£8,435	£8,033	5.0%
HRA subsidy base data return (11/12)	N/A*	Qualified	5	N/A*	£9,683	£8,740	10.8%
SEEDA statement of expenditure	N/A	N/A	N/A	N/A	£0	£3,370	(100%)
Sure start	£8,290,398	Unqualified	2	(£120)	£3,223	£2,993	7.7%
Teachers Pensions	£18,449,883	Unqualified	5	(£20)	£5,505	£2,860	92.5%
Total fees					£85,910	£78,110	9.9%

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

Key issues arising

- 3.2 As highlighted above, two of the eight claims and returns subject to audit were submitted to the relevant grant paying body with a qualified audit certificate, all other returns were submitted with a standard audit certificate ('unqualified'). Given the complexity of certain grant claims and the detailed audit work involved in reviewing the eligibility of expenditure incurred, it is unsurprising our work identified some errors and inconsistencies. Five of the eight claims and returns were certified after amendments had been made to correct errors identified by our audit work. No issues arose from our audit of the residual three claims and returns. The audit of the housing and council tax subsidies claim was completed after additional testing had been undertaken, with further audit enquiries being made of officers accordingly.
- 3.3 The key issues arising from our work are:
- errors identified between supporting working papers and 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:
 - HRA Subsidy Base Data Return (2011/12)
 - Teachers pension return.
 - entries and calculations within claims and returns did not consistently follow the terms and conditions of grant specified by the government department, amendments being required to the following claims and returns:
 - HRA Subsidy Base Data Return (2011/12)
 - Housing and Council Tax Benefit subsidies
 - HRA Subsidy (2009/10)
 - Sure Start statement of expenditure.
 - audit work identified errors, either calculation or mis-classification, within the draft claims submitted to government departments and external audit. The position affected the following claims:
 - Housing and Council Tax Benefit subsidies
 - Sure Start statement of expenditure.
 - arithmetical errors were found by auditors within the detailed form for the following claims and returns:
 - HRA Subsidy Base Data Return (2011/12)
 - Teachers Pension Return.
- 3.4 The more significant issues arose from our audit of the Housing and Council Tax Benefit subsidies claim and the Teacher's Pension Return, as shown below.

Housing and Council Tax Benefit subsidies claim

- 3.5 The value of Housing and council tax benefit subsidy claimed by the Council in 2009/10 amounted to £104.6 million. The Audit Commission specifies the work auditors must complete in auditing the claim. The work is complex and its scope is wide. Auditors must confirm benefit has been calculated correctly and in accordance with the Government's regulations. The work involves a reviewing a minimum number of benefit cases (at Medway 80 cases were initially reviewed in detail across all benefit types).
- 3.6 Our audit of the initial sample of cases found minor errors made by staff in processing benefit. In such circumstances, the Audit Commission requires auditors to extend sample sizes and consider the impact on their overall conclusions. Based on our extended sample, we concluded the nature of the errors was isolated, with a low monetary value and no further action was necessary. The additional time taken to complete additional audit procedures, and the delay in commencing our audit work, meant the deadline for submitting the audited claim to the government department was missed. The Department of Work and Pensions

(DWP) therefore decided to withhold subsidy of £457,000 due in December 2010 until our audit was completed. We understand the DWP has now paid the outstanding amount after receiving the audited claim on 23 December 2010.

- 3.7 We also found the Council's policy for awarding Single Person's Discount to council taxpayers did not fully follow the Audit Commission certification instructions to auditors. We reported the situation to the DWP and we understand the Council is awaiting a final decision over subsidy it has claimed amounting to £43,500.

Teachers pension (annual) return

- 3.8 The annual Teacher's Pension return specifies the payments Medway makes to the Teachers Pension Agency (TPA) for the pensions of the teachers it employs. Payroll information is provided by individual schools and the education finance team in advance of preparing the claim. As a result of our audit work, five separate amendments were made to the claim, the most significant involving the understatement of the 2009/10 teacher's payroll cost by £67.5 million because officers transposed an incorrect amount from the year-end payroll report. The additional audit work required to resolve such errors increased the cost of the audit of the claim and also involved additional work from officers to resolve our audit queries.

Impact on fees

- 3.9 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 £7,800 higher than in the prior year and £8,910 higher than our original estimate of £77,000.
- 3.10 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 £2,000, 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 Recommendations

- 4.1 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 recommendations include ensuring:
- comprehensive working papers and closing files are prepared to a consistently high standard to support the balances included in the draft claims submitted to government departments and external audit
 - the Council's system of management review is consistently applied before claims and returns are submitted to external audit.
- 4.2 It is also recommended the Audit Committee receives a report from officers on the progress made in implementing our recommendations in advance of preparing grant claim and other returns required for the 2010/11 financial year. PKF will also provide an update on the action we have taken to ensure the efficient completion of our audit of grant claims and other returns.

Appendix A – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<p>Supporting papers</p> <p>Auditors identified errors between working papers and 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.</p>	<p>Comprehensive working papers and closing files should be prepared to a consistently high standard to support the balances included in the draft claims submitted to government departments and external audit</p>	<p>High</p>	<p>HRA Subsidy Base Return Finance operate a control sheet for 'finance' cells setting out the appropriate source data / file reference. This control sheet will be extended to include those cells completed within the housing department. Control sheet to be reviewed by the Housing Services Manager / Principal Accountant prior to claim submission</p> <p>Teachers Pension Return The spreadsheet that contains the monthly breakdown has been amended to show a running total of employees and employers contributions and pensionable pay. We have also added formulas in to the spreadsheet to highlight any differences in the comparison for employees to employers and pensionable pay.</p>	<p>Housing Services Manager / Principal Accountant</p> <p>Payroll department</p>	<p>June – Sept 11</p>

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Claim accuracy Audit work, including review and checking of calculations within claims, identified some errors with the accuracy of the claim forms. Specifically some arithmetical errors, being either calculation or mis-classification, within the detailed claim forms.	The Council's system of management review should be consistently applied before claims and returns are submitted to external audit.	Medium	Teachers Pension Return The spreadsheet that contains the monthly breakdown has been amended to show a running total of employees and employers contributions and pensionable pay. We have also added formulas in to the spreadsheet to highlight any differences in the comparison for employees to employers and pensionable pay. HRA Subsidy Agreed. Meeting to be arranged Medway Housing, Finance & PKF to discuss 9/10 issues & way forward Sure Start See note in previous 'matters arising' as relates to same errors Housing & Council Tax Benefit Subsidies Housing Benefit and Council Tax Benefit grant claim is a complex issue. The extent of the errors needs to be put into context of the overall claim. The value of the grant claim is £104,696,006 and is made up of 231 cells which in turn is made up of over 40,000 claims. Two adjustments in respect of minor errors have been made affecting the grant claim by £8,609 or 0.008%. Management believe this shows that vigorous checking and control procedures are already in place.	Payroll department Finance Manager BSD /RCC n/a n/a	April 2011

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Report to Audit Committee <p>The Council's arrangements for preparing grant claims and other returns are variable and our recommendations made in February 2010 have not been consistently implemented. 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.</p>	<p>The Audit Committee should receive a report from officers on the progress made in implementing our recommendations in advance of preparing grant claim and other returns required for the 2010/11 financial year.</p> <p>PKF will also provide an update on the action we have taken to ensure the efficient completion of our audit of grant claims and other returns.</p>	High	<p>Agreed. However, it will be important to clearly distinguish between those audit findings which demonstrate systematic control issues as opposed to 'human' errors which are inevitable with large volumes of calculations / transactions. We will also wish to cover all aspects of the grant audit process including timetabling, communications and resources from both a MC and PKF perspective.</p>	<p>Finance Manager BSD / RCC</p> <p>Finance Manager C&A</p>	June 2010