

## **AUDIT COMMITTEE**

**5 JULY 2011**

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

Report from: Mick Hayward, Chief Finance Officer

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#### **Summary**

The previous meeting of this committee received a report from the Council's external auditor, PKF Ltd; on certification work undertaken on 2009/10 grant claims. This report fulfills the agreed recommendation to update the committee on progress made in addressing issues raised within that report.

#### **1. Budget and Policy Framework**

- 1.1 In accordance with the terms of reference, receipt of (and response to) the grant claim audit report, is a matter for this committee.

#### **2. Background**

- 2.1 The external auditor is responsible for auditing the larger grant claims made by the authority and reporting back on its findings. The report previously submitted, in respect of 2009/10 grants, concluded that the Council's arrangements were 'variable' and identified instances of:
- Arithmetical errors
  - Inconsistencies between grant claims and supporting papers
  - Variances from grant terms and conditions.
- 2.2 Whilst these issues resulted in a minimal change in grant eligibility (£9,000 on total claims in excess of £200m), they did necessitate the external auditor undertaking additional testing and resulted in a qualified audit opinion being issued in two cases.
- 2.3 It is obviously of concern to the Council when additional testing is undertaken; the grant audit fee (£85,910 for 2010/11) has continued to rise despite a 'lighter touch' approach being adopted by the Audit Commission in recent years.
- 2.4 However, the previous report did highlight the need to distinguish between systemic control issues and instances of 'human error' which are inevitable with large volumes of calculations / transactions.

### **3. Update**

3.1 The following paragraphs provide, on a grant by grant basis, an update on the measures taken to ensure that best practice is consistently followed in the preparation of grant claims.

#### **3.2 Housing & Council Tax Subsidy Claim**

3.2.1 The auditor's opinion in respect of this claim was qualified because the Council's adopted policy, in respect of Single Persons Discount, was deemed contrary to the auditor's certification instructions. Management were fully aware of the instructions, but identified a potential conflict with Council Tax regulations. This concern has now been addressed by improvements to the claim form and no further issues are anticipated.

3.2.2 The deadline for claim submission to the DWP was missed because of delays in PKF undertaking additional testing which was necessitated by a number of errors being identified in their original sample and delays brought about by staffing issues in the Fraud Team who were doing the testing on behalf of PKF. Agreement has been reached with PKF for initial claim testing this year to be undertaken by an external party, commencing in July 2011, which should be concluded within 2 weeks. This will allow ample time for any extended sampling, if required, and for PKF to complete the audit before the 30 November 2011 deadline.

#### **3.3 HRA Subsidy Base Data Return**

3.3.1 The auditor's opinion in respect of this claim was qualified because the housing department did not maintain adequate records in respect of tenancy terminations, specifically that no signed agreements were available. All termination forms are now being scanned onto file with a monthly audit being undertaken by the Service Improvement team who are crosschecking termination dates on the Academy system with the scanned termination forms. The CLG has notified the Council that it is satisfied that the qualification has been addressed.

3.3.2 In addition, the audit report identified that a number of assignments (mutual exchanges) had been wrongly included as relets. The Housing 'Academy' system is able to flag re-assignments and no further misclassifications are anticipated.

3.3.3 A control sheet will be maintained logging, for each cell in the return, who is responsible for its completion and confirming what supporting documents are available. This log will be reviewed jointly by the Head of Service Improvement, and a principle accountant, (both of whom are not directly involved in completion of the return), prior to submission. This review will also involve a check of reasonableness compared to prior year submissions.

3.3.4 The actions outlined in 3.3.3 will also be applied to the 2010/11 HRA Subsidy claim.

### 3.4 Teachers Pension Return

- 3.4.1 This return was included in the auditors report because a number of basic arithmetical errors were identified (although these only resulted in a minimal adjustment to grant eligibility).
- 3.4.2 As agreed, spreadsheet records have been strengthened through the addition of 'running totals' and test checks. In addition the completed return will be reviewed by a principal accountant prior to submission.

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

- 4.1 The financial implications are contained in the body of the report. 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 the actions detailed in this report.

## 6. **Recommendation**

- 6.1 That the Audit Committee notes the update on action taken in response to the external auditor's grant audit report for 2009/2010 and a report relating to grant claims for 2010/11 will be submitted to the committee in due course.

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### **Background Papers**

External Audit's Grant report to Committee February 2011. This is available via the council's website: [www.medway.gov.uk](http://www.medway.gov.uk)