

AUDIT COMMITTEE

29 MARCH 2012

EXTERNAL AUDIT'S GRANT CLAIM REPORT

Report from: Mick Hayward, Chief Finance Officer

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Summary

This report and attached letter present the work carried out by PKF Ltd, our external auditor, in respect of the certification of grant claims for the financial year ended 31 March 2011. 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 2010/2011.
- 2.2 The letter summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2011. The audit of grant claims was conducted between July and December 2011 in accordance with the deadlines specified by the Audit Commission.
- 2.3 The equivalent report for 2009/2010 identified a number of weaknesses in the preparation of grant claims and necessitated a further report to this Committee, on 5 July 2011, on corrective action undertaken.

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 Unlike the previous year, all of the Council's claims were submitted to Government departments without qualification. Furthermore, although a number of amendments were required, the external auditor reports that none of these were significant.

- 3.3 Although a marked improvement in the accuracy of claims is now reported, isolated weaknesses remain and the external auditor has prepared an Action Plan, presented as Appendix A to his findings, to address these issues.

4. Financial and Legal Implications

- 4.1 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 this committee's terms of reference.
- 4.2 The amendments to grant claims, made as a result of the audit, increased the Council's grant entitlement by some £17,000. The external auditors fees for the 2010/11 grant audit total £58,002 (2009/10 £85,910), 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 continuing to improve procedures and complying with the recommendations of the external auditor.

6. Recommendation

- 6.1 That the Audit Committee accepts the external auditor's grant audit report for 2010/2011 including the proposed Action Plan to achieve further improvements to the accuracy of the grant claims submitted to government departments.

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Background Papers

External Audit's grant audit report (attached)
External Audit Grant Claim Report – Audit Committee 5 July 2011



Accountants &
business advisers

Medway Council

Grant Claim Certification for the year ended 31 March 2011

January 2012

Contents

1	Summary and findings.....	3
2	Outcome of audit of grant claims and other returns.....	4
3	Summary of certification	7

Appendix

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 Summary of findings

- 1.1 The Audit Commission requires external auditors to report the outcome of the audit of grant claims and other government returns ('returns') to those charged with governance. This short report summarises the key issues arising from the certification of such claims and returns for the financial year ending 31 March 2011. Our audit work was conducted between July and December 2011 in accordance with the timetable specified by the Audit Commission.
- 1.2 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 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.
- 1.3 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. After completion of specified audit procedures, the grant claim (or return) may be certified with or without amendment or, where the grant amount cannot be determined, the claim may be qualified based on the audit work completed. All of the Council's claims were submitted to Government departments without qualification, which represents an improvement on the position reported last year.
- 1.4 At Medway, the value of claims and other returns certified in 2010/11 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.
- 1.5 The Council implemented some, but not all of the recommendations made in previous years to improve arrangements for preparing grant claims and other returns. It is pleasing to report PKF auditors worked effectively with officers to ensure all of the deadlines set by Government departments for completing the audit of individual claims and returns were met. In addition, while all of the claims (and returns) we audited required amendment, none of the amendments was significant. The overall impact on the Council's entitlement was an increase of £22,000 (following an amendment to the Housing and Council Tax benefit subsidies claim). A further £5,000 was payable to the Government following our audit of the Housing Revenue Account (HRA) subsidies claim.
- 1.6 The cost of our audit work at Medway in 2010/11 was £60,000 (the 2009/10 fee amounted to £86,000). The cost of our audit reduced significantly because the Council appointed external contractors to complete the detailed review of individual housing and council tax benefit cases required by the Audit Commission as part of our audit of the benefit subsidies claim.
- 1.7 There remains action the Council can take to reduce the overall fee for the audit of claims. It should establish arrangements for an independent management review of claims submitted to audit for reasonableness and consistency with underlying records. Such arrangements will increase the reliance we can place on the internal control environment for preparing claims (and other returns). An action plan containing our recommendations for improving the Council's arrangements for preparing grant claims and other returns is included at Appendix A.

2 Outcome of audit of individual grant claims and other returns

Housing and Council Tax benefit subsidies claim

- 2.1 The value of Housing and council tax benefit subsidy claimed by the Council in 2010/11 amounted to £112 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).
- 2.2 In 2009/10, we recommended the Council review the processes for awarding single person discount for applicable council tax benefit cases. The Council improved the verification processes in this area and reviewed all such cases in the year. Our audit did not identify any errors in relation to single person discount and award of benefit.
- 2.3 In 2010/11, the Council decided the detailed review of benefit cases should be undertaken by an external contractor. We agreed protocols with officers at an early stage and worked closely with the contractor to review the scope and quality of work produced. Based on our review of a sample of the contractor's work, we concluded it was reliable. Our fee for the audit of the benefit subsidies claim therefore decreased by £21,000 compared to the previous year.
- 2.4 The audit of individual cases highlighted a number of errors in calculating benefit subsidy involving the incorrect recording of information (such as date of birth; classification of benefit overpayment and length of claim). The Audit Commission requires where such errors are not considered to be 'isolated', an additional sample should be drawn and the impact of the error quantified. Accordingly, the external contractor reviewed certain aspects of a further 480 cases.
- 2.5 The errors found affected 16 cells on the benefit claim and the overall impact increased the value of local authority overpayment errors from a total of £374,788 to £488,546. The Council's entitlement to subsidy was therefore increased by £22,457.
- 2.6 We also found the Council does not systematically review all war disablement pensions which are classified as 'modified schemes'. The Council should perform a detailed review of all such cases in 2011/12.

Other Grant Claims

- 2.7 All claims were submitted to Government departments 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. All of the claims and returns we reviewed were certified after amendments had been made to correct errors identified by our audit work. The key issues arising from our audit of each claim (and return) are summarised in the following table.

Grant claim/Government return	Value of claim	Impact on claim
Housing and council tax benefit subsidy	£112 million	See paragraph 2.1
Pooling of housing capital receipts	£1 million	<p>The following amendments were made:</p> <ul style="list-style-type: none"> total pooled receipts reduced by £5,819 expenses reduced by £4,237 home improvement costs reduced by £4,049.
Disabled facilities grant	£0.7 million	Expenditure of £260,759 was excluded from the claim in error. The amendment did not affect entitlement to grant.
National non domestic rates return	£70 million	Reclassification of relief awarded between categories (£2,475). The amendment did not affect the Council's contributions to the national pool.
HRA subsidy (2010/11)	£1.4 million (payable to DCLG)	<p>The following amendments were made:</p> <ul style="list-style-type: none"> borrowing of £272,123 provided by charities was excluded from the average borrowing amount cell. opening capital financing requirement increased by £8.7 million following amendments made to the 2010/11 financial statements the aggregate amount of discounts receivable the council did not include discounts of £11,655 and administration costs of £81. <p>The Councils contribution to the subsidy pool therefore increased by £5,000.</p>
HRA subsidy base data return (2012/13)	N/A	<p>Our testing identified a number of errors:</p> <ul style="list-style-type: none"> the value of dwelling stock reduced from £119.644 million to £119.625 million the average weekly rent was recalculated for income received and property sold, reducing the amount from £71.41 to £71.54 HRA discounts and premiums for years beyond 2012/13 were excluded from the claim. The claim was amended by £15,716 and £72,378 respectively service charges were included in rent income in error. The claim was amended to reduce such income by £937,000 (to £10.778 million).

Grant claim/Government return	Value of claim	Impact on claim
Sure start	£11.1 million	Our testing identified that expenditure of £600 incurred in 2009/10 was included as expenditure in the 2010/11 claim. Additional testing did not highlight any further errors and the claim was adjusted for this amount. This amendment did not affect entitlement to subsidy.
Teachers Pensions	£17.1 million	Our testing identified a refund of employer contributions of £813 had been incorrectly included as a short term pension. Further extended testing did not identify any further errors. The claim was amended.

3 Summary of certification

3.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2011:

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on grant income £	Fee for year ended 31 March 2011 £	Fee for year ended 31 March 2010 £	Variance in fees %
Pooling of housing capital receipts	£991,249.50	Unqualified	2	N/A	£5,570	£3,130	78%
Housing and council tax benefit subsidy	£112,003,369.00	Unqualified	18	Increase £22,457	£22,429	£47,843	-44%
Disabled facilities grant	£739,000.00	Unqualified	2	No impact	£4,348	£3,003	45%
National non domestic rates return	£69,812,875.00	Unqualified	6	No impact	£6,083	£5,088	19%
HRA subsidy (2010/11)	(£1,510,706)	Unqualified	2	£-5,000	£3,750	£8,435	-55%
HRA subsidy base data return (2012/13)	N/A*	Unqualified	8	N/A*	£6,574	£9,683	-32%
Sure start	£11,113,235.00	Unqualified	4	No impact	£3,463	£3,223	7%
Teachers Pensions	£17,149,688.00	Unqualified	8	No impact	£5,785	£5,505	5%
Total fees					£58,002	£85,910	-32%
Cost of grant claim reporting					£2,000	£2,000	-

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

Appendix A – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Housing Benefit Subsidy claim The Council does not systematically check the documentation for persons claiming War Enablement Pension. In one instance the Pension documentation provided was dated 2005.	The Council should review all modified schemes that include a War Enablement Pension to ensure that the documentation to support the Pension is up to date.	High	Agreed	Finance Team (CFO)	Immediate
Claim accuracy Our audit work identified some inconsistencies between the draft claim forms provided to audit and underlying records. Specifically, the NDR return and the Teacher's Pension Return required a number of amendments due to inconsistencies with underlying records.	The Council's system of management review should be consistently applied before claims and returns are submitted to external audit. In particular, the NDR return and the Teacher's Pensions Return should be reviewed ensure the claim form submitted to audit is consistent with underlying records in all areas of the claim..	High	Agreed	Finance Team (CFO)	Immediate