

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER: **J201**

TO: OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING: 23 March 2010

EXTERNAL AUDITORS – GRANT CLAIM REPORT

1. **PURPOSE OF REPORT**

- 1.1 The Council's external auditors (PKF) to report on grant claim certification for the year ended 31 March 2009.

2. **RECOMMENDATION**

- 2.1 That the external auditor's report and Action Plan, attached as Appendix 1, be noted.

The Committee is able to resolve this matter.

3. **FINANCIAL IMPLICATIONS**

- 3.1 The fees indicated for 2008/09 claims are higher than in 2007/08. Although this can be funded from this year's revised budget provision, discussions are taking place with PKF on the scale of the increased costs on the housing and council tax benefit subsidy claim.

4. **RISK MANAGEMENT**

- 4.1 This report is most closely linked with Significant Business Risk No. 7 – Financial, Performance & Risk Management. The following risks are associated with this report:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Action is not taken to address the improvement areas outlined in the report.	Low	Marginal	Officers have already implemented a number of these as part of improvement actions.
Financial loss	Low	Marginal	There are robust mechanisms and controls in place in relation to ensuring that subsidy claims accurately reflect the Council's entitlements.

5. **KEY INFORMATION**

- 5.1 The report in Appendix 1 is presented to the Committee by the Council's external auditors (PKF) in relation to the main issues arising from the certification of the grant claims for 2008/09.
- 5.2 The summary of the overall assessment and audit fees are included in table 2.1 of PKF's report. This provides a high level comparative summary between the 2007/08 and 2008/09 claims in terms of value, qualifications and number of amendments.
- 5.3 Overall, the auditors report recognises (see section 2.1 of the report) that there has been *"an improvement in the preparation of these claims, with a lower number of amendments identified"*. This has resulted in an unqualified audit opinion in all cases.
- 5.4 However, in relation to audit fees, these have increased by about £6k overall compared to the previous year. This is primarily in relation to the housing and council tax benefit subsidy claim which is partly offset by some reductions on other claims. The reason for the increase in terms of amendments to this particular claim and the additional audit work undertaken has been explained by the auditors in section 2.4 of the report. Members will note that the net value of the amendments arising was only £649 on a total subsidy claim of £19.3m.
- 5.5 Officers are seeking clarification from PKF on these additional fees and why these have arisen when there have been a lower number of amendments overall. At face value, although this extra work has no doubt been necessary, it is difficult to reconcile this statement with an increase in fees.
- 5.6 Clarification is also being sought on the significance of these amendments in terms of the impact on the Council's Use of Resources Assessment (see sections 1.3 and 1.4 of the report).
- 5.7 The auditors report draws to the Council's attention further opportunities for improvements in this area. The Action Plan shown in the Appendix to the report has been reviewed and responded to by the officers. These actions will ensure that the Council continues to make improvements to its controls and processes.

6. **APPENDICES**

- 1 Grant Claim Certification for the year ended 31 March 2009

7. **BACKGROUND PAPERS REFERRED TO**

None.

CONTACT: Barry Hunter, Director of Finance
Homira Javadi,
Corporate Finance Manager

E-MAIL: barry.hunter@babergh.gov.uk
homira.javadi@babergh.gov.uk



Accountants &
business advisers

Babergh District Council

Grant Claim Certification for the year ended 31 March 2009

February 2010

Contents

1	Introduction.....	1
2	Summary of certification	2
3	Fees charged	4
4	Conclusions.....	4

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 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2009. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.
- 1.2 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, may be qualified as a result of the testing completed.
- 1.3 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 inspection risk assessment for benefits services. Sample sizes and methodology for this work are prescribed by the Audit Commission.
- 1.4 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), 1.3 (financial reporting) and 2.2 (data quality). Consequently the outcomes of the 2008/09 certification work, included within this report, will inform the use of resources assessment and Value for Money conclusion for 2009/10.
- 1.5 We would like to thank all the staff involved in the grant claims preparation and audit for all their co-operation.

2 Summary of certification

2.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2009.

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments made to claim	Impact of amendments on subsidy £
Housing and council tax benefit subsidy	19,308,059	Unqualified	8	649
Pooling of housing capital receipts	690,736	Unqualified	4	0
Disabled facilities grant	138,000	Unqualified	2	0
National non domestic rates return	19,004,127	Unqualified	0	0
HRA subsidy (2008/09)	4,617,625	Unqualified	1	0
HRA subsidy base data return (2010/11)	N/A*	Unqualified	18	N/A*
Total for 2008/09	43,758,547	All unqualified	33	649
Total for 2007/08	41,799,074	2 qualified	67	

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

2.2 All of the claims audited were unqualified, five of the six were certified with amendment. In a number of cases, additional testing and enquiries had to be undertaken in order to resolve issues identified and make appropriate corrections to claim. However, an improvement from prior year was seen in the preparation of these claims, with a lower number of amendments identified. The Council needs to continue to improve arrangements to reduce these further which should then result in a reduction in the time taken to certify the claim.

2.3 The HRA subsidy base data return (2010/11) was subject to a number of amendments. Three multi-occupied dwellings had been misclassified within the "flats" analysis of dwellings but should have been included within "houses" which affected a number of cells. The "total value of rents" figure also had to be amended as non-dwelling rents had not been included and other charges that the certification instructions state should be within this cell. There were also instances arising where the figures in the claim did not agree to the supporting working papers. Appropriate amendments were discussed and agreed with Officers so that the claim was certified without qualification.

2.4 In relation to the Housing and council tax benefit subsidy a number of errors were identified. These were as follows:

- two of the errors resulted in additional 40+ testing as required by the methodology agreed with DWP. Both of these errors were determined to be isolated and the claim was amended accordingly. The testing was completed by the benefits staff and our re-performance of their work found that we agreed with their conclusions.
- a benefits system (IBS) issue regarding the misclassification of overpayments when a suspension of a claim is made was identified. The benefits staff isolated the cases that were suspended in the year and undertook testing of all of the cases to determine whether the overpayments had been correctly classified. Our re-performance found that in some cases the incorrect conclusion had been reached. Additional testing therefore needed to be undertaken so that an adjustment could be made to the claim and qualification avoided as agreed with Officers.
- the guidance for cell 95, Regulated tenancies (generally this is a tenancy that started pre 15 January 1989 though there are some exceptions and caveats to this), states that Registered Social Landlord properties should not be included within this cell. Initial testing found one case where a Registered Social Landlord property had been included in cell 95. Due to the small population within cell 95, every claimant was reviewed to determine how many other cases had been misclassified. A further six cases were identified and an amendment was made to move the relevant amounts in to the appropriate cell.
- an overpayment was identified and notified to the claimant but did not appear in any of the overpayment cells. This related to an emergency payment and therefore all emergency payments, again because of the small population affected, were reviewed and it was found that this error was isolated and an adjustment was made accordingly.
- an error was identified regarding the incorrect disregard of attendance allowance for a modified scheme (war widow/war disablement pension claimant) case. All of the modified scheme cases were reviewed to determine whether this affected any other cells and it was determined that it did not. An adjustment was made to the claim to correct for this error.
- a number of other errors were identified as part of the testing but these were determined to be isolated and adjustments were made to the claim.

3 Fees charged

- 3.1 The fees charged for each grant claim audited for the year ending 31 March 2009 were as follows:

Claim	Fee for the year ended 31 March 2009	Fee for the year ended 31 March 2008
Pooling of housing capital receipts	2,140	2,232
Housing and council tax benefit subsidy	32,868	25,013
Disabled facilities grant	764	645
National non domestic rates return	3,125	3,137
HRA subsidy (2008/09)	1,919	2,965
HRA subsidy base data return (2010/11)	4,324	6,073
Grants Report	735	-
TOTAL	45,875	40,065

- 3.2 The benefits claim fee has increased due to the issues documented above. The reduction in the housing claim fees reflects the improvement in the working papers provided.
- 3.3 The Grants Report is mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared. The cost of reporting 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 There is scope for the Council to improve its arrangements for the preparation of grant claims and supporting working papers for 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 – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
General					
<ul style="list-style-type: none"> There were instances where the supporting documentation did not agree to the values in the claim and amendments had to be made. 	<ol style="list-style-type: none"> Compile a comprehensive working paper file for each grant claim that includes: <ul style="list-style-type: none"> A copy of the draft claim submitted to the grant paying body and copies of any subsequent amended claims produced prior to audit Explanations for, and working papers to support, any amendments made to the original draft claim since submission Working papers that support the entries in each cell of the most claim submitted for audit and demonstrate that the requirements of the grant paying body have been met in completing the claim. Independently review the file to identify any inconsistencies between the working papers and the claim form. 	High	Agreed in principle. Further discussions are taking place with the auditors to clarify the specific areas where this was not adequately in place for last year.	Corporate Finance Manager.	To be incorporated as part of 2009/10 Final Accounts closedown process.
<ul style="list-style-type: none"> Amendments to the Certification Instructions had not been identified by officers in all cases and led to amendments. 	<ol style="list-style-type: none"> Ensure the latest guidance is used and referred to when compiling the claim. Review the latest guidance notes to ensure that all changes are identified and taken into account in the preparation of the claim. 	High	Recommended action is noted. Officers have reviewed processes and put in place the necessary arrangements to ensure compliance with all new guidance in future.	Corporate Finance Manager.	To be incorporated as part of 2009/10 Final Accounts closedown process.