



## Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>19 FEBRUARY 2015</b>
Title	<b>EXTERNAL AUDITOR'S REPORT – CERTIFICATION OF COUNCIL'S GRANT CLAIMS AND RETURNS - ANNUAL REPORT</b>
Report of	<b>HEAD OF FINANCIAL MANAGEMENT</b>

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### EXECUTIVE SUMMARY

1. The purpose of this report is to introduce the external auditor's Annual Report on Certification of Claims and Returns for 2013/14 for acceptance by the Audit Committee.

### BACKGROUND

2. The Annual Report on Certification of Claims and Returns summarises the audit of the various grant claims and returns made by the council during 2013/14. Local authorities claim large sums of money in grants and subsidies from central government and other external agencies and are normally required to complete returns to substantiate those claims. The certification work carried out by the external auditor provides assurance to the grant paying agencies that claims have been submitted correctly and are consistent with the financial records of the council.
3. The work carried out by external auditors to certify claims and returns will vary according to the value of the claim or return and the requirements of the grant paying body. In broad terms they use the following guidelines:
  - For claims and returns below £125,000 there are no certification arrangements and audit work is not undertaken.
  - For claims and returns between £125,000 and £500,000 limited testing is undertaken to agree amounts to underlying records, but no testing is carried out to establish the eligibility of expenditure.
  - For claims and returns above £500,000 work is planned in accordance with certification instructions to assess the control environment within which the claim is prepared in order to decide whether reliance can be placed on it or not; depending on the outcome of that assessment, testing is undertaken to agree amounts to underlying records, and also to test the eligibility of expenditure or other data for inclusion in the claim.

4. Following completion of the certification work claims and returns may be amended where it is agreed with officers that it is necessary. In certain cases, the grant certificate may refer to a qualification of the grant claim where there is disagreement or uncertainty over the amount claimed, or where the council has not complied with the terms and conditions of grant. The housing benefits subsidy claim is one where there is likely to be a qualification of the claim, regardless of the amount of any errors, as the Department for Work and Pensions (DWP) insists on a qualification of the claim even for very minor adjustments, and sets the level of testing to be carried out to substantiate the claim.

#### SUMMARY OF 2013/14 GRANT CERTIFICATION

5. The total value of claims and returns certified in 2013/14 was in excess of £54 million; this amount relates to the gross value of the housing benefits subsidy claim and is the sole remaining grant claim and return for which an audit is carried out by the external auditor. Councils are responsible for administering the government's housing benefits scheme and claiming subsidies from the Department for Work and Pensions towards the cost of benefits paid. During 2013/14 the total value of the claim was £54,043,894.
6. The audit fee for certifying this claim was £19,614, representing a 24 per cent reduction on the previous year's fee of £25,878. The certification work for the claim includes a programme of testing, agreed with the DWP. Guidance requires the completion of extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. Errors were identified in both the initial testing and extended testing, which resulted in a qualification letter to the DWP. The qualification letter included the extrapolation of errors, resulting in a total potential error of £47,241. The factual accuracy of the letter was agreed with officers, and it was agreed that the most significant extrapolation error (£28,956 reduced rent) was likely to be an isolated incident, and that in general terms extrapolation of errors is likely to exceed the actual amount of any errors. On that basis the total amount of actual errors is likely to be significantly lower than £47,241.
7. In addition to the above audit, in previous years the council's external auditors have also been asked to audit the Teachers' Pensions Agency (TPA) annual return. Following a change in 2013/14 the Audit Commission excluded the TPA audit from the list of grant claims and returns to be completed by appointed auditors; however the TPA still required an external audit of the return to be completed. Following a period of correspondence during the autumn, when many of the national accountancy firms indicated they were unhappy with the original specification for the audit set by the TPA, a revised specification was published and the council engaged Price Waterhouse Coopers (PWC), our internal auditors, to carry out the audit and provide an independent report to the TPA. This arrangement was outside the scope of the internal audit contract and at additional cost to the council.
8. Following extensive testing of the figures included in the return, PWC concluded its audit on 19 December 2014, in time for the deadline of 31 December 2014 bearing in mind the Christmas holiday period. Their conclusion was that the return for the year ended 31 March 2014 had been prepared, in all material aspects, in accordance with the regulations underpinning the Teachers' Pension Scheme, as set out in the

guidance. However they did identify a number of relatively minor issues requiring the attention of management, and which have been brought to the attention of officers responsible for compiling the return.

9. In another departure from previous grant claims and returns procedures, certification work on Business Rates returns (the NNDR3 grant claim) is no longer within the Audit Commission's grant regime. Despite that change, the Audit Commission has now acknowledged that auditors are still required to undertake these additional audit procedures to enable them to gain assurance that business rates have been treated correctly within the financial statements. As a result, the Audit Commission has asked each auditor to agree a scale fee variation with councils affected by the change. In our case the variation amounts to £1,070 and a full explanation is included in Appendix B.

### STRATEGIC CONTEXT

10. The annual external audit of the grant claims and returns made by the council represents a key part of the council's overall corporate governance framework, in particular as it relates to financial control and the stewardship of significant sums of public money.

### CONSULTATION

11. The Annual Report on Certification of Claims and Returns has been discussed and agreed with the managing director, the head of financial management, and the head of internal audit. Specific issues within the report have been discussed with the head of residents' advice and shared services and relevant staff in the council's Revenues and Benefits Service and Shared Services. A similar approach has been adopted with the PWC report on the TPA audit.

### FINANCIAL / BUDGET IMPLICATIONS

12. The total cost of grant and claims certification work in 2013/14 included within the external auditor's report was £19,614, which is accommodated within the overall budget for audit fees. The annual fee compares favourably with a fee of £25,878 in 2012/13 and represents a significant reduction on fees paid historically for the audit of grant claims and returns. However, it needs to be borne in mind that the council had to commission another firm of auditors to complete the necessary work on the Teachers' Pension Agency annual return, that the cost of that audit amounted to £5,865, and that the comparison of costs incurred by the council between the two financial years should include both amounts. Similarly, we also need to consider the additional cost of £1,070 added to the scale fee as a result of the audit arrangement for business rates (NNDR3) previously treated as a grant claim.

### LEGAL IMPLICATIONS

13. There are no significant legal implications arising from the content of the report, although the implementation of any actions planned to address any identified areas for improvement will be important to the maintenance of an effective governance framework in order to ensure ongoing compliance with relevant conditions of grant. On this occasion none have been identified.

## EQUALITY AND DIVERSITY

14. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

## RISK MANAGEMENT

15. The key risk is that the council fails to take adequate action to address any issues identified by the auditor or to appropriately monitor progress in addressing those issues. On this occasion improved control and reconciliation processes for the Teachers' Pensions Return in particular will help to mitigate the issues identified by the auditors.
16. A second risk that has arisen this year is that following the closure of the Audit Commission's audit practice, the number of claims and returns referred to the council's appointed auditors has reduced each year. However, as experienced with the Teachers' Pensions Return, a number of government agencies may still require an auditor to review their particular claim or return, and that will require the council to make alternative arrangements to secure an independent auditor's report.

## RECOMMENDATION

17. Members are asked to accept the Annual Report on Certification of Claims and Returns for 2013/14, and note that the council also incurred additional costs for an audit of the Teachers' Pensions Return no longer carried out by the council's appointed external auditors. Members are also asked to note the change of £1,070 to the audit scale fee to acknowledge the additional audit certification work on business rates.

## APPENDIX ATTACHED

18. [Appendix A](#) – External Auditor's Certification of Claims and Returns - Annual Report 2013/14

[Appendix B](#) – External Auditor's 2013/14 Scale Fee – Late Variation

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