



Accountants &
business advisers

Eastbourne Borough Council

Grant Claim Certification for the
year ended 31 March 2011

February 2012

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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 Background and key conclusions

- 1.1 This 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 2011 at Eastbourne Borough Council. The majority of our audit work was conducted between July and December 2011 in accordance with the deadlines specified by the Audit Commission. We have a protocol in place with the Internal Audit Section which means we are able to fully rely its work to support our certification audit. The Government's deadline for completing the audit of the housing and council tax benefit claim (30 November 2011) was not met because additional work was required to review the Council's administration of council tax benefit where claimants are entitled to single person's discount. The claim was certified on 31 January 2012.
- 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 incurred by local authorities is in accordance with the terms and conditions agreed. Where external auditors cannot confirm the accuracy of amounts claimed, the grant claim or return is certified with a qualification letter and there is a risk the funding department may withhold amounts due until the qualification matter is resolved. This can adversely affect Councils' cash flow and resources. At Eastbourne, the Department of Work and Pensions delayed payment of some subsidy because of the late submission of the audited housing and council tax benefit claim.
- 1.3 The value of claims and other returns certified in 2010/11 at Eastbourne amounted to over £83 million. For claims over £500,000 in value, a full audit of the claim is required. For those claims with a value of between £125,000 and £500,000, we are required to conduct only a limited review of the overall control environment before certifying the claim. Claims under £125,000 do not require audit certification.
- 1.4 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.
- 1.5 After completion of the audit procedures contained within the Certification Instruction, the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, the claim may be qualified based on the audit work completed.

Key conclusions

- 1.6 The overall control environment for the preparation of grant claims and other returns at Eastbourne is generally satisfactory with a specific weakness affecting the classification of benefit awarded to single people entitled to a discount on their council tax. We audited six claims and recommended minor amendments to two claims (the housing revenue account [HRA] base data return for the 2012/13 year and the pooling of housing capital receipts return). The amendment to the housing capital receipts claim return meant the Council contributed a further £17,000 to the national pool in the year. The Council expects its contribution in 2011/12 to be reduced by this amount when it provides additional evidence to support expenditure previously incurred. The HRA subsidies return (2010/11 year); the disabled facilities grant claim and the National non-domestic rates return were certified without any amendments. All five of these claims and returns were certified without qualification.
- 1.7 Our audit of the housing and council tax benefit subsidies claim found the Council has not fully followed the Department of Work and Pension's (DWP) guidelines for cases where council tax benefit claimants are also entitled to single person's discount. The position affects the Council's benefit expenditure and subsidy for the period 1 April 2000 to December 2011.
- 1.8 The Council completed a substantial amount of work to quantify the impact of the error on benefit paid and subsidy previously received. As a consequence, the Council estimates subsidy amounting to £298,000 should be repaid to the DWP for the eleven year period to 31

March 2011. We reviewed the basis of the estimate and consider it to be reasonable. The Council is continuing to review the award of such benefit in the 2011/12 financial year and expects further amounts to be repayable to the DWP. The DWP informed the Council the amounts involved are expected to be recovered from subsidy payments made before 31 March 2012. Our audit report was therefore qualified.

- 1.9 Our audit report was also qualified because of errors made in classifying benefit paid to council house tenants and because certain information included in the claim was not fully reconciled to underlying financial systems and other information. The Council may have under claimed subsidy of about £9,000 because the lower amounts are included for the purposes of the claim. The Council is continuing to look into such matters.

Audit fee

- 1.10 The cost of our audit of 2010/11 claims at Eastbourne is £53,332 (the 2009/10 fee amounted to £47,836). The cost of our audit increased as a result of the additional work necessary following the Council's review of council tax benefit cases where the claimant is entitled to single person's discount. The qualification of the housing and council tax benefit claim meant some further costs were incurred. We will continue to work with officers to reduce the amount of fee payable for the audit of grant claims and our joint working with the internal audit section is expected to continue in 2011/12.
- 1.11 Following the publication of its national report: *Review of Arrangements for Certifying Claims and Returns*, the Audit Commission mandated preparation of this report to highlight the importance, raise the profile of certification work and improve the standard 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 time taken to draft, agree and finalise our report.

Next steps

- 1.12 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 mainly cover the preparation of the pooled housing capital receipts return and the housing and council tax benefit subsidies claim.

2 Audit of individual grant claims and other returns

2.1 At Eastbourne, the value of claims and other returns certified in 2010/11 amounted to £83.4 million, the most significant claim is the housing and council tax benefit subsidies claim (£53.3 million). Claims and returns subject to audit are prepared by the Finance department, though other departments provide information to support certain transactions. Of the six grant claims and other returns audited, five were submitted to the relevant grant paying body with a standard audit certificate ('unqualified') and one claim (housing and council tax benefit subsidies) was submitted subject to a qualification letter. Of the five unqualified claims and returns, two (the pooled capital receipts return and the housing base data return) were certified only after amendments had been made to correct errors identified by our audit work. The amendments made to the housing capital receipts return meant the Council should pay an additional £17,381 to the national pool in the year (though the Council expects to include the amount in the 2011/12 claim). The matters arising from our audit are shown below.

Housing and council tax benefit subsidies claim

2.2 The value of housing and council tax benefit subsidy claimed in 2010/11 amounted to £53.3 million. In planning our work, we concluded the control environment surrounding the preparation of the claim was largely satisfactory though we noted errors and inconsistencies had occurred in preparing the claim in previous years. Regardless of the effectiveness of the control environment, the grant paying department (the DWP) requires us to undertake detailed testing of a sample of 80 benefit cases across all benefit types, because of the complexity of the claim and the significant expenditure involved. The Internal Audit Section provides significant resources to complete the detailed review of benefit cases and we were able to rely fully on its work.

2.3 Our audit report was qualified in four areas, as shown below.

Area of claim	Qualification matter	Impact on 2010/11 subsidy
Single Person Discount claimants	See paragraph 2.4	Subsidy over claimed between April 2000 and March 2011: £298,266
Reconciliation of benefit granted (benefit system) to benefit claimed (claim form)	The benefit granted amount in the claim form and the benefit granted amount produced by the benefits system did not fully reconcile. The Council included the lower of the two amounts in preparing the claim.	Possible under claimed subsidy: £9,484.
In year reconciliation	We found a minor difference of £447 between Cell 125 and Cell 094 which the Council could not explain.	Possible under claimed subsidy: £447
Homeless people in short term leased or self contained licensed accommodation (Expenditure up to and including the cap)	We found seven errors in classifying expenditure with a total value of £21,213. There is no effect on the overall amount of subsidy claimed.	None

Single person discount and entitlement to council tax benefit

- 2.4 Working with the Internal Audit Section, our audit testing found cases where Eastbourne had not correctly applied single person's discount to the amount of benefit awarded. The position arose because administrators awarded benefit on the whole council tax amount rather than the reduced, single person's amount (single people are entitled to a 25 per cent discount on their council tax).
- 2.5 The Internal Audit Section and the Benefits Manager undertook a substantial amount of work to review all such cases over the period 1 April 2000 to 31 March 2011. We reviewed the outcome of the Council's work and concluded its estimation that benefit had been over claimed by £298,266 was reasonable. The DWP wrote to the Council on 26 January 2012 to confirm no amendment should be made to the 2010/11 claim and that the amount was due to be recovered in 2011/12 and accounted for in the subsidies claim for that year. The Council is continuing to review the impact on council tax benefit awarded in 2011/12 and is liaising with the DWP accordingly. Further amounts may therefore be payable to DWP. The Council has established additional procedures to address the matters highlighted by our audit work.

Housing capital receipts return

- 2.6 Local authorities are required to 'pool' receipts where certain types of asset (council houses and housing land) are sold. Amounts are returned to a national pool for redistribution with (typically) 75 per cent of the disposal amount being returned to the Government. While the value of Eastbourne's return as at 31 March 2011 was less than £500,000 (at £476,000) we undertook some audit procedures to ensure consistency with other work undertaken following our audit of the 2010/11 financial statements. Our work found three errors which meant the Council should return an additional £17,381 to the national pool because insufficient evidence was provided at the time of our audit to confirm the eligibility of expenditure on improvement works and other expenditure which did not meet the criteria specified by the Government to reduce the amount returned to the national pool. All errors were corrected by officers and a revised claim form was certified. The Council expects to provide sufficient evidence for the expenditure in due course and we will consider whether the amount should be included in the 2011/12 claim.

HRA Base Data Return (2012/13)

- 2.7 The annual housing revenue account base data return collects information about the Council's housing stock numbers and type of dwelling; the number of voids and relets; the caps and limits on expenditure and details about other reckonable expenditure allowed for subsidy purposes. The introduction of the Localism Act, and the new requirements for a 'self financing housing revenue account' means the Government collected additional information about Eastbourne's HRA interest premiums and discounts; estimated expenditure on other reckonable expenditure for the period 2012 to 2042; capital contributions to new build schemes funded by Homes and Communities Agency grant; demolitions, disposals and other appropriations planned in 2011/12; and planned demolitions over the period 2012/13 to 2016/17. The data return was therefore wider in scope than previous years and additional audit work was completed accordingly.
- 2.8 We identified the following errors which the Council amended:
- the Council incorrectly calculated the average weekly rent amount which was amended from £68.48 to £68.20 (per week over 52 weeks)
 - Information about proposed demolitions (cells SF001DE and SF002DE) after 1 April 2012 was incorrect and the claim was amended from 18 units to 171 units
 - Information about properties becoming void in advance of demolition (cell SF000SR) was amended from 204 units to 51 units

- information about the number of properties used to calculate HRA rent and rent caps was incorrect and two cells (cells F004ri and F005ri) were amended on the claim from 66.59 units to 66.76 units; and 66.35 units to 66.53 units respectively.

Other grant claims and returns

- 2.9 The housing revenue account return (2010/11 outturn); the disabled facilities grant claim and the National non-domestic rate return were submitted to Government departments without amendment and with a standard audit certificate ('unqualified'). No issues arose from our work on these claims and returns.

3 Summary of certification

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

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Gross impact of amendments £	Fee for the year ended 31 March 2011 £	Fee for the year ended 31 March 2010
Housing department						
Housing subsidy return (Hou01)	£1,374,357	Unqualified	0	-	£5,165	£8,954
Housing base data return (Hou02) *	N/A	Unqualified	1	N/A	£9,778	£4,850
Housing and council tax benefit subsidies	£53,309,613	Qualified	0	-	£27,446	£23,116
Disabled facilities grant	£520,000	Unqualified	0	-	£2,450	£2,343
Pooling of housing capital receipts	£476,139	Unqualified	2	£17,381 **	£2,813	£3,029
Finance department						
National non domestic rates return	£27,760,282	Unqualified	0	-	£5,680	£5,544
Total	£83,440,391			(£17,381)	£53,332	£47,836

* Information only collected

** to be reviewed in 2011/12

Appendix A – Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Pooling of housing capital receipts return					
The return contained two errors which were amended.	Ensure all returns submitted for audit are checked and reviewed for accuracy and potential error. In particular, the eligibility of expenditure and administrative expenses should be reviewed.	High	Agreed. The Council will work with Eastbourne Homes Limited to provide sufficient evidence to confirm the eligibility of such expenditure to be accounted for in the 2011/12 return.	Chief Finance Officer	September 2012
Housing Revenue Account bas data return (2012/13)					
We found three errors in the housing revenue account base data return for the 2012/13 year.	When the final housing revenue account subsidy return is prepared in 2011/12, the Council should ensure matters arising from the audit of the base data return are fully considered	High	The Council does not expect to prepare a base data return for future years following the establishment of the self financing HRA. Further guidance on the final 2011/12 return is awaited from Government.	Chief Finance Officer	Immediate
Housing and council tax benefits					
Four matters arose which we reported to the DWP in a qualification letter. These errors related to reconciliation issues, single person discount and the classification of expenditure.	The matters highlighted in the qualification letter should be addressed for the 2011/12 audit. The claim should also be checked and reviewed to ensure it is in line with the Council's expectations before audit submission.	High	Agreed. The Council has appointed external consultants to review this matter further. The outcome will be considered in preparing the 2011/12 claim, including the possible repayment of subsidy.	Chief Finance Officer	Immediate