

Certification of claims and returns annual report 2013-14

Thurrock Council

16 January 2015

Ernst & Young LLP



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Dear Members

Certification of claims and returns annual report 2013-14 Thurrock Council

We are pleased to report on our certification work. This report summarises the results of our work on Thurrock Council's 2013-14 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and the submission deadlines.

Certification work is not an audit. It involves executing prescribed tests designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2013-14, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2013-14 certification work and highlights the significant issues.

We checked and certified one claim and one return with a total value of £68,690,747. We met all submission deadlines. However, due to issues with the Department's portal for submission, the Pooled Capital receipts return could not be submitted by the statutory deadline. Once this issue was resolved the return was submitted and was not classed as missing the deadline.

We issued one qualification letter for the housing benefit claim. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

We have made one recommendation this year, set out in section 3.

Fees for certification work are summarised in section 2. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed, and the fees for certification of housing benefit subsidy claims have been reduced by 12 per cent. This is to reflect the removal of council tax benefit from the scheme.

We welcome the opportunity to discuss the contents of this report with you at the Standards and Audit Committee on 4 February 2015.

Yours faithfully

Debbie Hanson
Director
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1. Summary of 2013-14 certification work

We certified one claim and one return in 2013-14. Our main findings are shown below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£61,829,679
Limited or full review	Full
Amended	Not amended
Qualification letter	Yes
Fee – 2013-14	£20,885
Fee – 2012-13	£23,870 (excluding additional fee for response to DWP)

Recommendations from 2012-12:	Findings in 2013-14
Training for housing benefit assessors should continue and in particular cover overpayment calculation and classification and Local Housing Association rent.	Training has been provided. However errors were identified in the calculation and classification of overpayments, which remains a weakness. Training should therefore continue and in particular cover overpayment calculation and classification.

Councils run the Government's housing benefits scheme for tenants. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

The main issues we reported were:

- misclassification of expenditure and overpayments HRA and non-HRA rent rebates;
- incorrect calculation and misclassification of rent allowance overpayments; and
- incorrect application of local housing authority rent. However, the errors identified resulted in an underpayment for which there are no subsidy implications.

Following the conclusion of the 2012/13 housing benefit claim audit, the authority undertook additional testing on three areas where they did not consider the samples sizes and extrapolations to be representative of true performance. The DWP has requested that we review this additional work and provide a report stating our opinion and findings. We have now completed this work and are currently drafting our report, in which we will be reporting our revised extrapolations and the additional errors identified on misclassification of overpayments on rent rebates and rent allowances.

We estimate that our fee for this additional work will be £3,063.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£6,861,068
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2013-14	£482
Fee – 2012-13	£890
Recommendations from 2012-13:	Findings in 2013-14
None	This is the final year the claim is required to be audited. There are therefore no recommendations.

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards then redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and 'right to buy' discount repayments.

The claim was amended to remove the double-counting of one sale in quarter three housing receipts. This reduced the total capital receipts subject to pooling by £72,000. A number of errors were identified in the uplift of house prices as a result of the transfer of information from the Council's own spreadsheet to the DCLG spreadsheet which has to be used for the calculation of attributable debt. These were corrected and revised figures calculated.

None of the errors identified had any overall impact on the poolable amount. We certified the amount payable to the pool without qualification.

2. 2013-14 certification fees

From 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fees for 2013-14 are based on actual certification fees for 2011-12, reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The 2013-14 fee for certification of housing benefit subsidy claims has been reduced from the indicative fee by a further 12% to reflect the removal of council tax benefit from the scheme.

Claim or return	2012-13	2013-14	2013-14
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	23,870	20,885	20,885
Housing benefit response to DWP for 2012-13 additional work	3,063 (estimate)*	0	0
Pooling of housing capital receipts	890	482	482
National non-domestic rates return	1,960		
Teachers' superannuation return	4,234		
Total	34,017	21,367	21,367

Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

* The additional fee for the work to respond to the DWP on the additional work undertaken by the Council on the 2012-13 return was completed in January 2015 and has not yet been billed. This will need to be agreed with the Audit Commission.

3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-15 is £21,010. The actual certification fee may be higher or lower if we need to undertake more or less work than in 2012-13 on individual claims or returns. Details of individual indicative fees are available at the following link:

[<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-fees-and-work-programme/individual-certification-fees/>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2012-13 fee.

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission (due April 2015).

The Audit Commission currently expects that auditors will continue to certify local authority claims for housing benefit subsidy from the Department for Work and Pensions (DWP) under the arrangements developed by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014/15. Arrangements for 2015/16 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016/17, when Universal Credit is expected to replace housing benefit.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made, or does not intend to make, certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those Teachers' Pensions introduced for the Teachers' Pensions return for 2013-14.

During 2013-14 we acted as reporting accountants in relation to the Teachers' Pensions scheme. We have provided a separate report to the Council in relation to this return. This work has been undertaken outside the Audit Commission regime, and the fees for this are not included in the figures included in this report. This is referred to here for completeness to ensure Members have a full understanding of the various returns on which we provide some form of assurance. We did not identify any significant issues as part of this work that need to be brought to the attention of Members.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Housing benefits subsidy claim				
Training for housing benefit assessors should continue and in particular cover overpayment calculation and classification	Medium	Agreed and training is ongoing	Ongoing	B Amako

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