

The Members of the Audit Committee
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Dear Members

Certification of claims and returns annual report 2012-13 Tendring District Council

We are pleased to report on our certification work. This report summarises the results of our work on Tendring District Council's 2012-13 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 are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of 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 set out the submission deadlines.

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

In 2012-13, 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 via 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. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £101.9 million. We met all submission deadlines. Our certification work found errors in the Housing Benefit claim. As a result of these errors we issued a qualification letter for the housing benefit claim and the council also made some amendments to the claim. Details of the qualification matters are included in section 2. The amendments had a marginal effect on the grant due.

We did not make any recommendations in the previous year. We have made 1 recommendation this year. This is set out in section 3.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 and their values after the 40% reduction to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the March 2014 Audit Committee.

Yours faithfully

Neil Harris
Director
Ernst & Young LLP
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1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£77,210,735
Limited or full review	Full
Amended	Amended – subsidy reduced by £7,938
Qualification letter	Yes
Fee - 2012-13	£26,186
Fee - 2011-12	£28,502
Recommendations from 2011-12:	Findings in 2012-13
None	No follow up required as no findings reported in 2011/12

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. 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+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and the council carried out extended testing relating to Calculation of income for rent allowance cases with assessed income and application of Local Housing allowance rates.

Our testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter:

- ▶ The authority does not retain copies of information from the DWP CIS system. For two cases the system did not go back far enough for us to be able to view this information to confirm that the claim had been correctly calculated.
- ▶ Northgate (revenues system) has incorrectly calculated tax on self-employed income. As this is a system issue the authority have reported it to Northgate and are awaiting a response.
- ▶ Income was incorrectly calculated in a number of rent allowance cases resulting in forty plus testing being required.
- ▶ LHA rates had been incorrectly applied to one case, this resulted in additional forty plus testing being required.
- ▶ Veterans agency pensions were uprated from an incorrect date resulting in a small underpayment of benefit.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£24,462,877.99
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,790
Fee – 2011-12	£7,063
Recommendations from 2011-12:	Findings in 2012-13
None	No follow up required as no findings reported in 2011/12

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£251,203.20
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,020
Fee – 2011-12	£1,680
Recommendations from 2011-12:	Findings in 2012-13
None	No follow up required as no findings reported in 2011/12

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards 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.

We found no errors on the pooling of housing capital receipts return and we certified the amount payable to the pool without qualification.

2. 2012-13 certification fees

For 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 fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Tendring District Council for 2012-13 was £24,500. The actual fee for 2012-13 was £28,896 (Additional fee subject to Audit Commission approval). This compares to a charge of £38,111 in 2011-12.

Claim or return	2011-12 Actual fee £	2011-12 2011-12 fee less 40% reduction £	2012-13 Indicative fee £	2012-13 Actual fee £
Housing and Council Tax Benefits Subsidy Claim	28,502	17,101	21,690	26,186
National Non-Domestic Rates Return	7,063	4,238	1,790	1,790
Pooling of Housing Capital Receipts	1,680	1,008	1,020	1,020
HRA Subsidy	866	520	-	-
Total	38,111	22,867	24,500	28,896

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction. However after allowing for the 40% reduction there was a small increase in fees for the following claims and returns:

- ▶ Housing and Council Tax Benefits Claim - The 2012-13 actual fee was £9,085 higher than the 2011-12 adjusted fee. Our sample, which was randomly selected, included a higher proportion of complex cases. Due to the nature of these cases we needed to use a higher skill mix to ensure that they were correctly calculated. In addition, we identified errors which required amendment and additional time was incurred as a result.

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £19,100. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 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/201314-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 2011-12 fee.

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 DCLG will introduce for business rates from 1 April 2013.

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
<p>Housing and council tax benefits subsidy claim: Ensure that appropriate training is developed and delivered to staff to ensure that: All staff understand how income should be recorded within Northgate to prevent incorrect award of benefit The importance of correct dates at the time of data entry.</p>	Medium	Appropriate training will be developed and delivered		Paul Price – Corporate Director Life Opportunities

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