

AUDIT COMMITTEE

19 MARCH 2015

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.4 EXTERNAL AUDIT REPORT – CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2013/14

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present the External Auditor's certification of claims and returns annual report 2013/14.

EXECUTIVE SUMMARY

- Two claims / returns made by the Council were subject to audit by the Council's External Auditor in accordance with relevant thresholds or the terms of the grant or subsidy.
- The External Auditor's detailed report is attached. A qualification letter has been issued in respect of the housing benefit subsidy claim, although there has been no significant direct impact on the associated level of grant funding or other additional implications at the present time. This position remains subject to review by the Department for Works and Pensions who will be considering the External Auditor's qualification letter.
- One recommendation has been made by the External Auditor which has been agreed by the relevant service.

RECOMMENDATIONS

That the Committee:

- a) **Considers and notes the External Auditor's certification of claims and returns annual report 2013/14.**
- b) **Agrees the recommended action in response to the External Auditor's findings.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The aim of continuing to be financially stable and well managed and provide good value for money is directly supported through learning and improving through audit and inspection. This requires proportionate responses to recommendations and opportunities for improvement identified by the External Auditor each year.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Due to additional testing that was required, an additional fee will be chargeable by the External Auditor. However this will be managed within the overall budget for the year.

Risk

If proportionate and practical responses to recommendations made by the External Auditor are not fully considered then there is the risk that errors or incorrect claims are made in the future which could have an adverse impact on the Council's reputation and standing in addition to any potential financial loss.

LEGAL

There are no direct legal implications associated with this report.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications.

PART 3 – SUPPORTING INFORMATION**BACKGROUND AND OUTCOMES FROM THE EXTERNAL AUDITOR'S WORK**

The Council is responsible for completing, certifying and submitting the required claims and returns in accordance with the instructions and timescales issued by the relevant government department or body.

The External Auditor is required to make appropriate certification arrangements for various claims and returns based on their value. The External Auditor's report setting out the outcomes from the audit work they have undertaken is attached.

A summary of the key outcomes from the annual report is set out below:

- In respect of the housing benefit subsidy claim, testing identified some errors that were subsequently amended, with no significant impact on the overall level of subsidy receivable. A qualification letter has been issued by the External Auditor based on the findings set out in their report attached.

In response, a recommendation has been agreed that relates to the Council performing early and extended testing in those areas where errors were identified in 2013/14 to ascertain the extent of similar errors arising in 2014/15.

- In respect of the second claim that was subject to external audit, no errors were identified and the claim was certified without qualification.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

The External Auditor's Certification of Claims and Returns – Annual Report 2013/14



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Dear Members

Certification of claims and returns annual report 2013-14 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 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 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 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 sets 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 two claims and returns with a total value of £64.2 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. The details of which are included in section 1. The amendments had a marginal impact on the grant due.

We have made one recommendation this year given the level of errors found and extra testing we performed. The recommendation is set out in section 4.

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. However, the Audit Commission has approved an additional fee of £5,931 for the extra testing undertaken in 2013/14.

We welcome the opportunity to discuss the contents of this report with you at the March 2015 Audit Committee.

Yours faithfully

Neil A Harris
Audit Director
For and behalf of Ernst & Young LLP
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1. Summary of 2013-14 certification work

We certified two claims in 2013-14. Our main findings are shown below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 63,642,990
Limited or full review	Full review
Amended	Amended – total subsidy claimed decreased by £2,814 for errors identified during testing.
Qualification letter	Yes
Fee – 2013-14	£21,839
Fee – 2012-13	£26,186
Recommendations from 2012-13:	Findings in 2013-14
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 and the importance of correct dates at the time of data entry.	The Council implemented the recommendation from last year. However, as the errors were found in November 2013 similar errors had already occurred during the 2013/14 financial year. As the errors could continue into to 2014/15, we have recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2014-15.

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 of twenty cases identifies errors in the calculation of benefit or compilation of the claim. We found errors in five areas. The Council carried out extended testing by isolating the population for the errors across rent allowances and modified schemes and testing all relevant cases.

Summary of errors

Description of Cell	Nature of error
Cell 094: rent allowance – total expenditure	Misclassification of expenditure between Cell 102 and Cell 103 for the incorrect administering of one housing association claim found from extended '40+' testing 2 errors as regards the incorrect state retirement pension increase date applied found from extended '40+' testing 7 errors in respect of overpaid benefits due to the incorrect industrial disability benefits having been applied 1 error regarding overpaid benefits due to incorrect war disablement pension had been applied.
Cell 225: modified schemes – rent allowance	1 error in respect of overpaid benefits due to an incorrect start date of war pension increase found at initial testing. Extended testing found a further 14 similar errors.
Other issues – netting off issue on local housing allowances expenditure	The detailed cells in the claim did not reconcile with headline cells due to an overpayment of £2.85 brought forward from 2012-13

All 2013/14 errors were found from the early 40+ testing and extended testing undertaken by the Council in response to the errors found on the 2012/13 Housing Benefits Subsidy claim.

The Council amended the claim for overpaid benefits due to incorrect industrial disability benefits and incorrect war disablement pension applied on rent allowance and overpaid benefits due to incorrect start date of war pension increase applied on modified schemes (rent allowance) as 100% of these cases had been tested. The net impact was that subsidy was reduced by £2,814.

We have reported underpayments, uncertainties and the extrapolated value of other errors, including the misclassification of expenditure between Cell 102 and Cell 103 and the application of the incorrect state retirement pension increase date in our Qualification Letter. The DWP will decide whether to ask the Council to carry out further work to quantify the error or claw back the benefit subsidy paid.

As the errors were found in November 2014, the Council may have made similar errors in the early part of the 2014-15 financial year. We have therefore recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2014-15.

We also plan to perform some of our work on the 2014-15 claim earlier in the year to help alleviate workload pressures in November 2015.

Pooling of Housing Capital Receipts

Scope of work	Results
Value of claim presented for certification	£ 549,795
Limited or full review	Full review
Amended	N/A – no amendment required.
Qualification letter	N/A – no qualification letter issued.
Fee – 2013-14	£1,907
Fee - 2012-13	£1,020

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. 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 claims and returns in that year, 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 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.

The indicative fee for the Tendring District Council housing benefits subsidy claim for 2013-14 was £18,077. The 12% reduction reduced the fee to £15,908. The Audit Commission approved an additional fee of £5,931 for the extra testing undertaken as detailed in Section 1 in 2013/14. The actual fee of £21,839 represents the total of £15,908 and £5,931.

The actual fee for 2012-13 was £26,186. The sum represents an indicative fee of £21,690 plus a fee approved by the Audit Commission of £4,496 for extra testing undertaken in January 2014.

The actual 2013/14 fee for the pooling of housing capital receipts of £1,907 represents the indicative fee of £1,023 and an extra fee approved by the Audit Commission of £884. In line with the guidance within the Audit Commission's general grant instructions, every three years we undertake extended testing of the pooling claim to confirm our understanding of the control environment and that it is appropriate to place reliance upon it. Therefore for 2013/14, the Council incurred an extra fee for this work.

Claim or return	2012-13	2013-14	2013-14
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	26,186	18,077	21,839
Pooling of Housing Capital Receipts	1,020	1,023	1,907
National non-domestic rates return	1,790	-	-
Total	28,996	19,100	23,746

Overall 2013-14 fees are lower than those charged in 2012-13. The main reason for this is that the indicative fee for housing benefit subsidy claim in 2012/13 was £21,690 in comparison to £15,908 for 2013/14. The 2013/14 fee was based on the 2011/12 claim where few errors were found and the 12% reduction in fees in 2013/14 reflecting the removal of council tax benefit from the scheme also reduced fees in 2013/14.

In addition, the NNDR return no longer requires certification in 2013/14.

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. From 2013-14 the NNDR return no longer requires certification.

The Council's indicative certification fee for 2014-15 is £19,090. The actual certification fee may be higher or lower than the indicative fee, 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. During 2013-14 we have not acted as reporting accountants in relation to any schemes for Tendring District Council.

Summary of recommendations

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 Perform early extended testing in those areas where errors were identified in 2013-14, to ascertain the extent of similar errors arising in 2014-15.	High	Agreed	31 May 2015	Paul Price – Corporate Director Life Opportunities

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