

AUDIT COMMITTEE

17 MARCH 2016

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.4 EXTERNAL AUDIT REPORT – CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2014/15

(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 2014/15.

EXECUTIVE SUMMARY

- Only one claim / return made by the Council was subject to audit certification 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. To date no response has been received from the Department for Works and Pensions in response to the External Auditor's qualification letter which they would have received in early December 2015.
- 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 2014/15.**
- 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 of £1,543 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 and/or based on the requirements of the relevant grant / subsidy paying body. The External Auditor's report setting out the outcomes from the audit work they have undertaken is attached.

Only the housing benefit subsidy claim was subject to external audit certification work. The testing work undertaken identified a small number of errors which have been summarised on pages 1 to 2 of the attached, 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.

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 2014/15 to ascertain the extent of similar errors in 2015/16.

The External Auditor also acted as reporting accountants for the pooling of housing capital receipts return for 2014/15. No significant issues were identified with only one amendment made, which did not have a significant impact on the Council's pooling liability for the year.

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| BACKGROUND PAPERS FOR THE DECISION |
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|------|
| None |
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|-------------------|
| APPENDICES |
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| The External Auditor's Certification of Claims and Returns – Annual Report 2014/15 |
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Certification of claims and returns annual report 2014-15

Tending Council

29 February 2016

Ernst & Young LLP



EY

Building a better
working world

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29 February 2016

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Dear Members

Certification of claims and returns annual report 2014-15 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 2014-15 claims.

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, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This 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 Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014/15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £64 million and met the submission deadline. We issued a qualification letter with our submission; the qualification matters are included in section 1. We made amendments to the claim which decreased subsidy claimed by £100.



Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the 17 March 2016 Audit Committee.

Yours faithfully

Neil A Harris
Audit Director
For and behalf of Ernst & Young LLP
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1. Housing benefits subsidy claim

| Scope of work | Results |
|--|---|
| Value of claim presented for certification | £64,038,655 |
| Amended | Yes - total subsidy claimed decreased by £100 for errors identified during testing. |
| Qualification letter | Yes |
| Fee – 2014/15 | £20,633 (which includes £1,543 additional fee) |
| Fee – 2013/14 | £22,381 |
| Recommendations from 2013-14 | Findings in 2014-15 |
| 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. | The Council implemented the recommendation from last year. However, we have found similar errors in some areas in November 2014. As these could continue into to 2015/16, 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 2015-16. |

Local Government administers the Government's housing benefits scheme for tenants and can 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. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in a number of areas.

Summary of errors: 2014/15

As in 2013/14 we did not find any errors from our initial testing of 20 cases across Non-HRA Rent Rebates, Rent Rebates, Rent Allowances and Modified Schemes.

Follow up of errors from 2013/14

The following errors were discovered by the Council in undertaking extended '40+' and '100%' testing from errors reported in 2012/13 and 2013/14.

| Description of Cell | Nature of error |
|--|---|
| Cell 094: rent allowance – total expenditure | <p>No errors found from '40+' testing in 2014/15 of the misclassification of expenditure between Cell 102 and Cell 103 for the incorrect administering of housing association claim.</p> <p>2 errors found from extended '40+' testing as regards the date applied to the incorrect state retirement pension increase. We extrapolated the errors across the sub-population within the Qualification Letter. We reported an extrapolated error of £16,361 to the DWP.</p> <p>3 errors found in respect of overpaid benefits due to the incorrect application of industrial disability benefits. We agreed an amendment to the claim with the Council.</p> |

| Description of Cell | Nature of error |
|---|---|
| | 4 errors regarding overpaid benefits due to the incorrect application of war disablement pension. We agreed an amendment to the claim with the Council. |
| Cell 225: modified schemes – rent allowance | 5 errors in respect of overpaid benefits due to an incorrect start date of war pension increase. We agreed an amendment to the claim with the Council. |
| Other | |
| Risk based verification policy. | <p>The Council authorised the risk based verification policy in August 2012. Paragraph 15 of HB/CTB Circular S11/2011 states the policy must be reviewed annually. The Council did not comply with this guidance in 2014/15.</p> <p>Since our work, officers reviewed the policy in August 2015 and proposed no changes. Audit Committee Members received the covering Section 151 Officer’s report and reviewed the policy on the confidential part of the December 2015 Audit Committee meeting agenda.</p> |

We reported the one extrapolation and other uncertainties in our Qualification Letter. The DWP then decides 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 2015, the Council may have made similar errors in the early part of the 2015/16 financial year. I 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 2015/16.

2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psa.co.uk).

| Claim or return | 2013-14 | 2014-15 | 2014-15 |
|--------------------------------|-----------------|---------------------|-----------------|
| | Actual fee £ | Indicative fee £ | Actual fee £ |
| Housing benefits subsidy claim | 22,381 | 19,090 | 20,633 |
| Total | 22,381 | 19,090 | 20,633 |

The fee includes time for annual reporting, planning, supervision and review.

The fee for 2013/14 consisted of the scale fee of £15,908. The Audit Commission approved an additional fee of £5,931 for the extra testing undertaken during our in 2013/14, taking the total to £21,839 as reported in our 2013/14 certification report to Members. The total of £22,381 also includes a sum of £542 approved by the Audit Commission in August 2015 for follow up work on the 2013/14 claim as specified by the DWP.

The indicative fee for 2014/15 is based on the fee for 2012/13. The actual fee for 2014/15 is £1,543 higher than the indicative fee to reflect the extra work we have undertaken in 2014/15.

Our proposed final fee has been discussed with officers. This is subject to review by Public Sector Auditor Appointments who will determine a final scale fee which will not exceed the £20,633 above.

3. Other assurance work

During 2014-15 we also acted as reporting accountants in relation to the following schemes:

- ▶ Pooling of Housing Receipts 2014-2015 Return.

We have provided separate reports to the Council in relation to this return. This work has been undertaken outside the Audit Commission/PSAA regime, and the fees for this are not included in the figures included in this report.

We refer to the report 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. However, we agreed an amendment as the Council had entered one of the properties from Housing Data records incorrectly into the return.

4. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £16,379. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Finance and Procurement Manager before seeking any such variation.

5. 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 benefits subsidy claim</p> <p>Perform early extended testing in those areas where errors were identified in 2014-15, to ascertain the extent of similar errors arising in 2015-16.</p> | High | Agreed | 31 May 2016 | Paul Price – Corporate Director Life Opportunities |

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