

Crawley Borough Council

Certification of claims and returns annual report 2012-13

February 2014

Ernst & Young LLP



Audit and Governance Committee
Crawley Borough Council
Town Hall
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Dear Members

Certification of claims and returns annual report 2012-13 Crawley Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Crawley Borough 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 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 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 an approximate total value of £171.4 million. We met all submission deadlines. We issued a qualification letter for one claim. Details of the qualification matters and amendments are included in section 1. The Council's arrangements for the production of claims and returns remain adequate overall. .

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 welcome the opportunity to discuss the contents of this report with you at the 12 March meeting of the Audit and Governance Committee.

Yours faithfully



Paul King
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.

1.1 Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 57,709,237
Limited or full review	Full
Amended	No
Qualification letter	Yes
Fee - 2012-13	£14,351
Fee - 2011-12	£24,971
Recommendations from 2011-12:	Findings in 2012-13
None	N/A

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 carried out two sets of '40+' extended testing covering council tax benefit.

The '40+' testing did not identify any further errors. We extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. No amendments were made to the claim. This was because given the nature of the populations tested it was unlikely that even significant additional work would result in amendments to the claim that would allow us to conclude it was fairly stated. We reported the extrapolated value of these errors to the DWP in a qualification letter.

We also carried out further work with respect to one area of modified schemes. This related to the total paid on increase in benefit arising from local schemes which allow some or all of a war disablement pension or war widow's pension to be disregarded. In our initial testing we found one case where benefit was misclassified as a result of an issue within the benefits software. The issue was limited to modified schemes cases where payments relating to the period 01/04/2013 onwards have been included in the 2012-13 subsidy claim. We reviewed all other modified schemes cases and no other cases include payments relating to 01/04/2013 onwards. As such we concluded that the error was isolated. This error has been corrected in the 2013-14 subsidy year by the Authority.

We also found a minor error in respect of the 2011-12 benefit parameter up-rating. Our testing identified that the Authority made an error in the up rating of claimant's 2011-12 income parameters, the errors we detected were minor and ranged between 0.00% and 0.33%. There was no impact on subsidy in the cases we tested. The authority has reviewed all impacted cases and made the necessary adjustments back to April 2013..

1.2 National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£ 106,892,151
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,940
Fee – 2011-12	£1,434
Recommendations from 2011-12:	Findings in 2012-13
None	None

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.

1.3 Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£6,827,956
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£800
Fee – 2011-12	£1,830
Recommendations from 2011-12:	Findings in 2012-13
None	None

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government (CLG). 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 Crawley Borough Council for 2012-13 was £14,350. The actual fee for 2012-13 is subject to determination by the Audit Commission and is £17,091. This compares to a charge of £37,670 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee £	Indicative fee £	Actual fee ¹ £
Housing and council tax benefits subsidy claim	24,971	12,860	14,351
National non-domestic rates return	1,434	690	1,940
Pooling of housing capital receipts	1,830	800	800
Housing subsidy	2,735	N/A	N/A
Re-certification of the 10/11 pooling of housing capital receipts, grant claim planning and reporting	6,700	N/A	N/A
Total	37,670	14,350	17,091

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction and the removal of the requirement to audit the housing subsidy return. Variations between the 2012/13 indicative and actual fee levels are explained below:

- ▶ **Housing and council tax benefits subsidy claim**
As set out in more detail in section 1 of this report, in 2012-13 errors in the initial samples meant we had to complete two sets of '40+' testing as a result of errors found in council tax benefit. Officers completed the additional testing required, however the certification approach requires us to review and re-perform a sample of the additional testing undertaken by the Authority. We also carried out additional work on modified schemes. The nature and extent of the errors identified in our testing meant we had to draft and agree a qualification letter to report our findings in these areas. It has been necessary to bill additional fee to cover the cost of this work.
- ▶ **National non-domestic rates return**
Under the usual cyclical approach to testing a limited scope review was undertaken on the 2010-11 and 2011-12 claims. A full scope review was therefore required in 2012-13. The indicative fee for 2012-13 was set on the assumption that a limited scope review would be undertaken as it was based on the 2010-11 fee. This has resulted in the increased fee from both 2011-12 and the indicative fee for 2012-13.

¹ At the time of writing the proposed variation to the indicative 2012/13 fee for the housing and council tax benefits subsidy claim is being considered by the Audit Commission.

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 Council's indicative certification fee for 2013-14 is £16,700. 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.

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