

Certification of claims and returns annual report 2013-14

Crawley Borough Council

February 2015

Ernst & Young LLP



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February 2015

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Dear Members

Certification of claims and returns annual report 2013-14 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 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 two claims and returns with a total value of £59,690,790. We met all submission deadlines. We issued one qualification letter for one claim. Details of the qualification matters are included in section 2. Our certification work found errors which had a small impact on the subsidy due.

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 11 March Audit Committee.

Yours faithfully

Paul King
Director
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1. Summary of 2013-14 certification work

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

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£49,699,953
Limited or full review	Full
Amended	Not amended
Qualification letter	Yes
Fee – 2013-14	£15,181
Fee – 2012-13	£14,351
Recommendations from 2012-13:	Findings in 2013-14
None	N/a

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 two areas, overpayments and modified schemes.

We have reported the extrapolated value of the overpayment errors, the actual error value of the modified schemes error and an error resulting in an underpayment 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. These are the main issues we reported:

- We identified one error where an overpayment was misclassified as claimant error when it should have been recorded as LA error. We undertook '40+' testing and identified two further errors. We extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim and reported this in our qualification letter.
- We identified one error in a modified scheme case where the incorrect pension figure had been used in the calculation of benefit. As there were a small number of modified scheme cases, the remaining cases were tested and three further errors were identified. We reported the financial impact of these errors in our qualification letter.

The net impact on the claim was £21,995.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£9,990,837
Limited or full review	Limited
Amended	Yes

Qualification letter	No
Fee – 2013-14	£1,140
Fee – 2012-13	£ 800
Recommendations from 2012-13:	Findings in 2013-14
None	N/a

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.

We found errors in the quarterly returns for the attributable debt on the pooling of housing capital receipts return as these could not be agreed to the supporting documents. The Council amended the 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 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	£14,351	£13,693	£15,181
Pooling of housing capital receipts	£800	£1,140	£1,140
National non-domestic rates return	£1,940	N/a	N/a
Total¹	£17,091	£14,833	£16,321

The requirement to certify the National non-domestic rates return was removed for 2013-14 and instead, this was considered as part of our work on the financial statements.

There was a small increase in fees for the following claims and returns:

- ▶ **Housing benefits subsidy claim**
As set out in more detail in section 1 of this report, in 2013-14 errors in the initial samples meant we had to complete two sets of additional testing as a result of errors found in overpayments and modified schemes. 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. 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.
- ▶ **Pooling of housing capital receipts**
There has been a small increase in the fee for the pooling of housing capital receipts return as a result of an increase in the scale fee.

¹ fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns

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 £12,630. 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 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.

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