

Certification of claims and returns annual report 2012-13

Havant Borough Council

January 2014

Ernst & Young LLP



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The Members – Governance and Audit Committee

Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

9 January 2014

Dear Members,

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

We are pleased to report on our certification work. This report summarises the results of our work on Havant 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.

We checked and certified two claims and returns with a total value of £72.8 million and we met all submission deadlines.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13 based on the 2010-11 actual fee.

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit Committee on 5 March 2014.

Yours faithfully



Helen Thompson
Director
Ernst & Young LLP
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1. Summary of 2012-13 certification work

We certified two 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	£42,541,716
Limited or full review	Full
Amended	Amended – subsidy decreased by £17,357
Qualification letter	Yes
Fee - 2012-13	£20,276
Fee - 2011-12	£23,974
Recommendations from 2011-12:	Findings in 2012-13
None	See table below

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. Our initial testing found a number of errors which resulted in additional fee being charged for the work undertaken, this is summarised in the table below:

Finding in initial sample

Rent Allowances: A registered rent claim had been incorrectly classified as a local housing allowance case.

Audit Response

Extended (40+) testing was undertaken and no other instances of the error were found. Subsequently a comparison against rent officer records was completed, no other errors were identified and the claim was amended.

Rent Allowances: An in year rent increase was not processed until the start of the 2013/14 financial year

As this resulted in an underpayment no extended testing was required. However, this was reported in the qualification letter that was sent to the DWP.

Rent Allowances: We identified one case where Income had been incorrectly assessed.

Extended (40+) testing was undertaken on overpayments, no other errors were identified and the claim was amended.

Rent Allowances: Two cases were identified where overpayments had been classified incorrectly between Local Authority error overpayments and eligible overpayments. This was due to the Authority following the Northgate subsidy system rather than DWP determination of overpayment types. This is a known difference and the software supplier produced a fix (BENCHK87) which had not been implemented at the Authority.

The adjustments proposed in the BENCHK87 report were made to the claim.

Council Tax Benefit: Two instances were identified where the claimant had died. At this point council tax liability should cease and any overpayment be classified within the technical excess benefit cell of the subsidy claim. However, due to a delay in processing the information in council tax, an eligible overpayment had been incorrectly created.

A drill down of all cases where the claimant had died in the year was undertaken. This identified a number of similar cases and the claim was amended.

Council Tax Benefit: Initial testing highlighted one case where there had been a number of changes in circumstances in a short period of time. This created a number of over and under payments and a subsequent reassessment resulted in a higher award for the period concerned, This didn't net off as expected and the claim therefore included the higher entitlement plus the overpayment, resulting in additional subsidy of £2.12 being claimed.

Extended (40+) testing was undertaken and no other cases were found. However due to the nature of the error, this issue was included in our qualification letter to the DWP.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£30,218,209
Limited or full review	Full
Amended	Not Amended
Qualification letter	No
Fee – 2012-13	£2,550
Fee – 2011-12	£4,324
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.

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 audited 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 Havant Borough Council for 2012-13 was £20,400. The actual fee for 2012-13 was £22,826 as a result of the additional testing required on the housing and council tax benefits subsidy claim. The additional fee for the housing and council tax benefit claim has been agreed with the Executive Head of Governance and Logistics but is yet to be formally agreed by the Audit Commission.

This compares to a charge of £28,298 in 2011-12.

Claim or return	2010-11	2011-12	2012-13	2012-13
	Actual fee	Actual fee	Indicative fee	Actual fee
	£	£	£	£
Certification of claims and returns - annual report	34,052	28,298	20,400	22,826
Total	34,052	28,298	20,400	22,826

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 £14,000. 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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