

# Certification of claims and returns annual report 2013-14

Fareham Borough Council

February 2015

Ernst & Young LLP



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The Members of the Audit and Governance Committee  
Fareham Borough Council  
Civic Offices  
Civic Way  
Fareham  
Hampshire  
PO16 7AZ

February 2015  
Ref: FBC/Claims/2013-14

Direct line: 02380 832043  
Email: KHandy@uk.ey.com

Dear Members

## **Certification of claims and returns annual report 2013-14 Fareham Borough Council**

We are pleased to report on our certification work. This report summarises the results of our work on Fareham 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 £20,315,921. We met all submission deadlines. We issued one qualification letter for the Housing Benefit subsidy claim. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the subsidy due.

The Council has implemented all of the recommendations from last year and has improved arrangements. We have made one recommendation this year, 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.

We welcome the opportunity to discuss the contents of this report with you at the 16 March 2015 Audit and Governance Committee.

Yours faithfully

**Kate Handy**  
Director  
For and on behalf of Ernst & Young LLP  
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## 1. Summary of 2013-14 certification work

We certified 2 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	£19,438,457
Limited or full review	Full
Amended	Amended – subsidy reduced by £9,416
Qualification letter	Yes

  

Recommendations from 2012-13:	Findings in 2013-14
The Council should continue to focus on reducing the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy.	In 2013-14 we continued to find errors which required us to ask the Council to carry out additional testing. These errors did not cause the Council to breach the error threshold but the Council needs to maintain an ongoing focus here. The main issues detected are set out below.
The Council should ensure that all actions arising from the software provider's exception reports are addressed.	All actions were addressed. No issues arising.
The Council should complete work reconciling the value of unrepresented cheques between the general ledger and the benefits software,	Reconciliation completed. No issues arising.

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 several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim, reducing subsidy by £9,416. We have reported underpayments and the extrapolated value of other errors 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:

- From an initial sample of 20 rent allowance cases we identified two errors totalling £1,108 whereby benefit had been overpaid as a result of eligible rent being incorrectly calculated. Errors ranged from £37 to £1071. Testing of a further 80 cases identified no errors of this type. The extrapolated error of benefit overpaid in our qualification letter was £27,719; and

- ▶ From a sample of 60 cases we identified one error of £132 whereby benefit had been overpaid as a result of earnings being incorrectly calculated. The extrapolated error of benefit overpaid in our qualification letter was £3,544.

### Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	886,880
Limited or full review	Full
Amended	Yes
Qualification letter	No

  

Recommendations from 2012-13:	Findings in 2013-14
None	<p>One amendment was made.</p> <p>The Council has entered into a section 11(6) retention agreement with the DCLG. The Council must spend the receipts retained under this agreement within 3 years. While the first deadline under the three year condition will not occur until 30 June 2015, the DCLG requested that authorities report their cumulative expenditure to 31 March 2014 now to ensure that an audit trail is in place.</p> <p>This 'information purposes only' disclosure was amended reducing the Council's recorded expenditure between the coming into force of the section 11(6) retention agreement and 31 March 2014 from £65,000 to zero.</p>

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.

## 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 (including a proportion of the cost of the annual report), 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 by a further 12% to reflect the removal of council tax benefit from the scheme.

Claim or return	2011-12	2012-13	2013-14	2013-14
	Actual fee £	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	42,255	17,141	21,278	21,278
Pooling of Housing Capital receipts	1,398	440	921	921
Other schemes no longer requiring certification	3,542	1,810	-	
Certification of claims and returns – annual report	4,000			
<b>Total</b>	<b>51,195</b>	<b>19,391</b>	<b>22,199</b>	<b>22,199</b>

There was an increase in fees in 2013-14 compared to 2012-13. This is because the Audit Commission set 2013-14 scale fees based on actual fees charged in 2011-12 while 2012-13 scale fees were set based on actual fees charged in 2010-11. The actual fees charged in 2011-12 were higher than those in 2010-11. This higher baseline resulted in the increase.

### 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 £15,080. 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-work-programme-and-scales-of-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.



## 4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Action agreed	Responsible officer
<b>Housing benefits subsidy claim</b>			
<p>The Council should continue to focus on reducing the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy. In particular the Council should focus on:</p> <ul style="list-style-type: none"> <li data-bbox="352 723 903 752">▶ reducing errors in calculating income; and</li> <li data-bbox="352 801 903 831">▶ reducing errors in calculating eligible rent.</li> </ul>	Medium	Yes	Systems and Support Manager

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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