

Fareham Borough Council

Certification of claims and returns annual report 2012-13

21 February 2014

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Building a better
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Dear Members

**Certification of claims and returns annual report 2012-13
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 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.

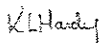
We checked and certified one claim and two returns with a total value of £61,507,120. We met all submission deadlines. As in previous years, we were required to issue a qualification letter for the Housing Benefit claim. Details of the qualification matters are included in section 1.

The Council has made progress on findings reported last year regarding Housing Benefit and Council Tax Benefit subsidy, particularly in awarding of Single Resident Discount to claimants. The quality of working papers supporting the claim remained high. However focus is still needed on reducing errors in assessing income and classification of expenditure. With changes to the benefits regime, including the introduction of the local council tax benefit scheme from 2013-14, the Council will need to maintain its focus on continuing to achieve improvements relevant to the subsidy regime from 2013-14 and managing outstanding issues from 2012-13.

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 have included the actual fees for 2011-12 to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee on 10 March 2014.

Yours faithfully



Kate Handy
Director Ernst & Young LLP
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Contents

1. Summary of 2012-13 certification work	1
2. 2012-13 certification fees.....	5
3. Looking forward.....	6
4. Summary of recommendations.....	7

1. Summary of 2012-13 certification work

We certified one claim and two 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	£23,906,064
Limited or full review	Full
Amended?	Yes – reduced by £1,704
Qualification letter	Yes
Fee – 2012-13	£ 17,141
Fee – 2011-12	£ 42,255
Recommendations and findings from 2011-12:	Progress on findings in 2012-13
The Council needed to reduce the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy.	In 2012-13 we continued to find several small value 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 a focus here. Issues from 2011-12 testing which reoccurred in 2012-13 are set out 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. We found errors in our initial testing and carried out extended testing in eight areas.

Extended '40+' testing and other testing identified errors. The Council has amended for some of these. They had a net impact of a £1,704 reduction on the claim. We have also reported underpayments, and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter or discussed with officers.

Calculation of income (rent allowances and council tax benefit)

Errors in calculating income have been reported in previous years. Errors resulted in both under and overpayment of benefit. They included miscalculating earnings and pensions, and incorrectly assessing allowances for pensions contributions for self-employed claimants. The value of extrapolated errors included in the qualification letter was low at £337 (Rent allowances) and £1211 (Council Tax Benefit) however the Council should continue to focus on reducing errors in this area.

Calculation of eligible rent (rent allowances)

We found one low value underpayment caused by an error in the calculation of weekly rent – less than in 2011-12. Additional testing carried out identified no further errors.

Classification of non HRA rent rebates

There is a systematic calculation error within the Council's benefit software which can cause a classification error for some non HRA rent rebates cases. It had no impact on benefit paid to claimants but causes a small underpayment of subsidy from the DWP to the Council. The Council has sought guidance from its software provider. A software script (program) was provided to identify errors of this type, but it did not detect them all, and the issue is currently with the supplier for action.

The Council uses some of its HRA properties for homelessness. Seventeen cases had been misclassified between HRA and non HRA properties. The claim was amended for this. There was no impact on benefit paid to claimants or overall subsidy paid to the Council.

Classification of overpayments

Once overpayments to claimants have occurred, the impact on the subsidy the Council receives from the DWP varies depending on the value and the causes of overpayment, which determine how they are classified in the claim. We found a lower number of misclassification errors on overpayments in 2012-13. As the value of errors found does not exceed the threshold allowed by the DWP for errors there is currently no impact on overall subsidy paid to the Council.

Compilation of the claim

The benefits software has a number of exception reports which enable the Council to accurately compile the year end claim. Though the Council ran all the reports, officers made the conscious decision (based on their interpretation of benefits legislation) not to follow up the output on one report and consequently did not check cases impacted or make amendments. The Council is currently corresponding with the DWP on this issue. There was no impact on claimants but subsidy could be reduced by up to £7,644.

Uncashed cheques

In previous years the auditor recommended that the Council work to reconcile the value of uncashed cheques between the general ledger and the benefits system. Initial work undertaken by the Council in previous years indicated that there were cheques with a value of £6,054 incorrectly recorded on the benefits system. As at 31st March 2013 the Council had made significant progress on the reconciliation but not yet completed it.

As a result of a separate issue an adjustment of £1,700 was made to cancelled cheques resulting in a reduction in subsidy paid to the Council. There was no impact on claimants.

Retention of documents

In 2011-12 we recommended that the Council should assess the impact of its policy on document retention to ensure it does not dispose of evidence required to demonstrate that the ongoing award of Housing and Council Tax Benefits has been made in accordance with legislation.

The Council is planning to lengthen the retention period for relevant documents to address this.

Follow up work for the 2011-12 claims

In June 2013, at the request of the DWP, we issued a supplementary report to the DWP in respect of our 2011-12 qualification letter. This concerned procedures for uncashed cheques and reporting on the work the Council had undertaken to correct errors in respect of Single Resident Discount (SRD).

The SRD errors have been resolved but work is ongoing in respect of uncashed cheques (see above).

The fee for this work was £ 5,733 and is reflected in section 2 of this report.

Recommendations

Recommendations in respect of these findings are set out in Section 4 of this report.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	37,196,510
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,810
Fee – 2011-12	£1,491
Recommendations from 2011-12:	Findings in 2012-13
None	No matters to report

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.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£406,250
Limited or full review	Limited
Amended	No
Qualification letter	No
Fee – 2012-13	£440
Fee – 2011-12	£1,398
Recommendations from 2011-12:	Findings in 2012-13
None	No matters to report

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local housing 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.

Summary of 2012-13 certification work

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 Fareham Borough Council for 2012-13 was £17,900.

We have proposed an actual fee of £19,391. All variations from the indicative fee have to be approved by the Audit Commission. We submitted a proposal for Housing and council Tax benefits subsidy in December 2013. We have yet to receive confirmation against the variation.

This compares to a fee of £51,195 in 2011-12.

Claim or return	2010-11 Actual fee £	2011-12 Actual fee £	2012-13 Indicative fee £	Proposed 2012-13 Actual fee £
Housing and council tax benefits subsidy claim	24,266	42,255	15,650	17,141
National non-domestic rates return	2,850	1,491	1,810	1,810
Pooling of capital receipts	690	1,398	440	440
Other schemes no longer requiring certification	3,635	2,051		
Certification of claims and returns – annual report	1,915	4,000		
Total	33,356	51,195	17,900	19,391

Housing benefit and council tax benefits subsidy claim– the 2011-12 fee includes additional fee of £5,733 for work requested by the DWP and completed in June 2013.

We are proposing an increase in fee of £1,491 in the fee for the 2012-13 Housing Benefit and Council tax benefits subsidy claim. This is due to the increased extended testing required in 2012-13 in comparison to 2010-11 on which the indicative fee is based (eight sets in 2012-13, six sets in 2010-11). This is being considered by the Audit Commission.

Fees for annual reporting and for planning, supervision and review in 2012-13 have been allocated directly to the claims and returns.

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 scheme that no longer requires 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 £25,100. 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.

4. Summary of recommendations

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

Recommendation	Priority	Agreed action and comment	Responsible officer
Housing and council tax benefits subsidy claim			
<p>The Council continue to focus on reducing the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy. In particular:</p> <ul style="list-style-type: none"> • The Council should continue to focus on reducing errors in calculating income. • The Council should reduce the level of misclassification errors. <p>The Council should ensure all that all actions arising from the software provider's exception reports are addressed.</p>	Medium	Agreed	Systems and Support Manager
<p>The Council should complete work reconciling the value of unpresented cheques between the general ledger and the benefits system.</p>	Low	Agreed	Systems and Support Manager

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