

Certification of claims and returns annual report 2013-14

Brentwood Borough Council

9 January 2015

Ernst & Young LLP



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The Members of the Audit and Scrutiny Committee
Brentwood Borough Council
Town Hall
Ingrave road
Brentwood
Essex
CM15 8AY

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Direct line: 07974 006715

Email: dhanson@uk.ey.com

Dear Members

Certification of claims and returns annual report 2013-14 Brentwood Council

We are pleased to report on our certification work. This report summarises the results of our work on Brentwood 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 one claim and one return with a total value of £17,955,731. We met all submission deadlines. We issued one qualification letter for the housing benefit claim. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant 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 Standards and Audit Committee on 27 January 2015.

Yours faithfully

Debbie Hanson
Director
Ernst & Young LLP
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1. Summary of 2013-14 certification work

We certified one claim and one return in 2013-14. Our main findings are shown below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£16,511,928
Limited or full review	Full
Amended	Amended – subsidy due to the Council increase by £18,985
Qualification letter	Yes
Fee – 2013-14	£24,093
Fee – 2012-13	£34,860
Recommendations from 2012-12:	Findings in 2013-14
None	None

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. Non-HRA rent rebates was determined to be a small population and therefore in accordance with certification guidance, all cases were tested (72 cases). The claim was amended for the errors identified.

Extended and other testing identified errors. They resulted in a small net increase on subsidy claimed. We have reported underpayments, uncertainties 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.

The main issues we reported were:

- misclassification of rent rebate overpayments;
- local housing authority rent incorrectly applied, resulting in overstated benefit entitlement; and
- incorrect calculation and misclassification of rent allowance overpayments.

In previous years, the Council has undertaken all the initial and 40+ testing, requiring only minimal re-performance of work by us. However, the Council did not have the capacity to undertake all 40+ testing this year and additionally errors were identified in the testing which was undertaken, requiring increase re-performance. The late identification of these issues resulted in additional audit time being required to complete the work and the claim not being certified until the deadline day.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£1,443,803
Limited or full review	Limited
Amended	No
Qualification letter	No
Fee – 2013-14	1,082
Fee – 2012-13	1,450
Recommendations from 2012-13:	Findings in 2013-14
None	None

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 no errors on the pooling of housing capital receipts 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	34,860	14,712	24,093 *
Pooling of housing capital receipts	1,450	1,082	1,082
National non-domestic rates return	5,590		
Total	41,900	15,794	24,340

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

* The indicative fee for the housing benefit claim is significantly lower than the prior year outturn. The indicative fee was based on the level of fee in 2011/12, when significant improvements had been made in benefit assessment, all initial and 40+ testing was undertaken by the Council to a high standard and minimal errors were identified. The increase in fee against the indicative reflects the fact that the Council was not able to complete all the 40+ testing required due to capacity issues. We therefore undertook this work. In addition, we identified some errors in the testing which was undertaken by the Council which required us to increase our level of re-performance.

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 £30,680. 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 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.

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. During 2013-14 we have not acted as reporting accountants in relation to any schemes for Brentwood Borough Council.

4. Summary of recommendations

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Housing benefits subsidy claim				
Training for Housing Benefit Assessors should continue and in particular cover overpayment calculation and classification	Medium			

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

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