

# Certification of claims and returns annual report 2013-14

East Cambridgeshire District Council

12 February 2015

Ernst & Young LLP



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Dear Members

## **Certification of claims and returns annual report 2013-14 East Cambridgeshire District Council**

We are pleased to report on our certification work. This report summarises the results of our work on East Cambridgeshire District 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 with a total value of £20.3 million. We issued a qualification letter on this claim, the details of which are included in section 2. Our certification work found errors, which the Council corrected. The amendments had a marginal impact on the grant due.

The Council implemented the recommendation from last year to perform extended testing early in the year. We have again made the same recommendation this year given the level of errors found and extra testing we performed. The recommendation is 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. However, the Audit Commission has approved an additional fee of £5,931 for the extra testing undertaken in 2013-14.

We welcome the opportunity to discuss the contents of this report with you at the relevant Corporate Governance & Finance Committee.

Yours faithfully

**Rob Murray**  
**Audit Director**  
For and behalf of Ernst & Young LLP  
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# 1. Summary of 2013-14 certification work

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

## Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£20,346,502
Limited or full review	Full review
Amended	Amended – subsidy reduced by £861 for errors found from the testing of non-HRA rent rebates, rent allowances and modified schemes.
Qualification letter	Yes
Fee – 2013-14	£20,275
Fee – 2012-13	£21,920
Recommendations from 2012-13:	Findings in 2013-14
Perform early extended testing to identify the extent of similar errors arising in 2012-13 that may have been made in 2013-14.	The Council implemented the recommendation from last year to perform extended testing early in the year. We have made the same recommendation this year given the level of errors found and extra testing we performed.

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 of twenty cases identifies errors in the calculation of benefit or compilation of the claim. We found errors in fourteen areas. The Council carried out extended testing across non-HRA rent rebates, rent allowances and modified schemes testing all relevant cases. The Council also undertook extensive '40+' testing in two areas covering rent allowances.

## Summary of errors

Description of Cell	Nature of error
Non-HRA rent rebates	<ul style="list-style-type: none"> <li>• 7 cases which related to other authorities than East Cambridgeshire District Council;</li> <li>• 2 cases where the landlord was a housing association and the case should have therefore been classified under rent allowances;</li> <li>• 4 cases (1 of which also related to another authority) where the eligible rent had been capped incorrectly, leading to an underpayment of subsidy;</li> <li>• 1 case where the incorrect eligible rent had been used, leading to an underpayment of subsidy. We found further errors upon extended testing;</li> <li>• 1 case where the overpayment had been misclassified between claimant and LA error and also between non-HRA Rent rebates and Rent Allowance We found further errors upon extended testing; and</li> <li>• 1 case where the overpayment had been netted off incorrectly. We found further errors upon extended testing.</li> </ul>

Rent allowances	<ul style="list-style-type: none"> <li>• 1 case where a change of circumstances had not been actioned;</li> <li>• 1 case where an overpayment had been misclassified as claimant error when it should have been a local authority error. Extended '40+' testing found further errors;</li> <li>• 3 cases where errors in earned income were identified; one led to an underpayment, one led to an overpayment and one had no impact, Extended '40+' testing found further errors;</li> <li>• 1 case where the carer premium had not been awarded, which would always lead to an underpayment of benefit; and</li> <li>• 1 case where self-employed income had been incorrectly calculated because of a system issue.</li> </ul>
Modified schemes	<ul style="list-style-type: none"> <li>• 1 case where the severe disability premium had been incorrectly awarded.</li> </ul>
Other issues reported to the DWP – manual amendment within the software supplier's reconciliation of and the lack of a review of risk based verification policy	<ul style="list-style-type: none"> <li>• Our qualification letter also highlighted a manual amendment within the software supplier's reconciliation of £1,070. The Council used the lower figure in the claim form, but we are required to report the difference to the DWP in the qualification letter; and</li> <li>• Authorities should review the risk based verification police (RBV) annually. This had not been undertaken. Testing of the initial sample identified 2 cases which had been assessed under RBV, but no errors had been found in their calculation.</li> </ul>

The Council undertook 100% testing of all cases as regards Non-HRA rent rebates, rent allowances for the particular cases where a change of circumstances had not been processed and modified schemes. The Council amended the housing benefit subsidy claim for these areas. The net impact was that subsidy was reduced by £861.

We have reported all underpayments, uncertainties including the cases found in non-HRA rent rebates relating to other councils, extrapolations arising from the two areas of extended testing within rent allowances in our qualification letter to the DWP. The DWP will decide whether to ask the Council to carry out further work to quantify the error or claw back the benefit subsidy paid.

As the errors were found in November 2014, the Council may have made similar errors in the early part of the 2014-15 financial year. We have therefore recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2014-15.

We also plan to perform some of our work on the 2014-15 claim earlier in the year to help alleviate workload pressures in November 2015.

## 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.

The indicative fee for the East Cambridgeshire District Council housing benefits subsidy claim for 2013-14 was £16,300. The 12% reduction reduced the fee to £14,344. The Audit Commission approved an additional fee of £5,931 for the extra testing undertaken as detailed in Section 1 in 2013-14. The actual fee of £20,275 represents the total of £14,344 and £5,931.

The fee for housing benefits certification for 2012-13 was £21,920. The sum represents an indicative fee of £15,210 plus a fee approved by the Audit Commission of £6,710 for extra testing undertaken in January 2014.

We then carried out follow up work to the 2012-13 qualification letter requested by the DWP. In June 2014, the Audit Commission approved an extra fee of £380 for 2012-13 follow up work requested by the DWP in April 2014. This has been included in the £22,300 below. The DWP made a further request for work in October 2014. We completed this work in December 2014 and a further fee of £863 is pending the Audit Commission approval, but this is excluded from the figure below.

Claim or return	2012-13	2013-14	2013-14
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	22,300	16,300	20,275
National non-domestic rates return	490	-	-
<b>Total</b>	<b>22,790</b>	<b>16,300</b>	<b>20,275</b>

Final 2013-14 fees showed a small decrease compared to those charged in 2012-13. The NNDR return no longer requires certification from 2013-14.

### 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 £19,290. The actual certification fee may be higher or lower than the indicative fee, 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 East Cambridgeshire District 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	High	Agreed	31 May 2015	Paul Corney, Head of ARP
Perform early extended testing in those areas where errors were identified in 2013-14, to ascertain the extent of similar errors arising in 2014-15.				

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