

Cherwell District Council

Certification of claims and returns annual report 2013-14

November 2014

Ernst & Young LLP



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The Members of the Accounts, Audit and Risk Committee
Cherwell District Council
Bodicote House
Bodicote
Banbury
OX15 4AA

24 November 2014

Ref:

Direct line: 07881518875

Email: mwest@uk.ey.com

Dear Member

Certification of claims and returns annual report 2013-14 Cherwell District Council

We are pleased to report on our certification work. This report summarises the results of our work on Cherwell 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 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 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 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 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 2013-14 certification work and highlights the significant issues.

We checked and certified one claim, the housing benefits subsidy claim, value of £37,576,334. We met the submission deadline. We issued a qualification letter for the claim. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the grant due.

Last year we recommended that the Council liaise with its service provider (Northgate) to agree a shorter response time for the production of bespoke reports if required for extended benefits testing. Alongside this recommendation we also planned to complete our initial benefits testing in July 2014 to allow a greater lead in time for any extended testing that was found to be necessary. This approach worked well and additional testing was completed well in advance of the certification deadline.

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. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, 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 Accounts, Audit and Risk Committee

Yours faithfully

Mick West

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

We certified one claim in 2013-14. The main findings from our certification work are provided below.

Housing benefits subsidy claim

| Scope of work | Results |
|---|-------------------------------------|
| Value of claim presented for certification | £37,576,334 |
| Limited or full review | Full |
| Amended | Amended – subsidy increased by £103 |
| Qualification letter | Yes |
| Fee - 2013-14 | £11,762 |
| Fee - 2012-13 | £16,715 |
| Recommendations from 2012-13: | Findings in 2013-14 |
| 40+ testing was completed very late in the process and close to the submission deadline due to lengthy elapsed time between the Council requesting reports from its service provider (Northgate) and the receipt of these reports. If further 40+ testing had been required, given the timescales involved, the Council would not have had the capacity to complete this by the deadline. To avoid this in future it is recommended that the Council liaise with its service provider (Northgate) to agree a shorter response time for the production of bespoke reports if required for extended 40+ testing. | Recommendation implemented. |

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+' testing (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 three areas.

Extended '40+' testing and other testing identified errors which the Council amended. They resulted in a small increase (£103) in the grant due. We have 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:

Testing of the initial sample identified:

- One case where the Authority had overpaid benefit as a result of awarding a backdated payment when there was insufficient evidence to support it.
- One case where the Authority had incorrectly recorded a dependent's date of birth, with no impact in subsidy.

- One case where the Authority had incorrectly recorded the number of dependents in the household, with no impact in subsidy.

Extended testing identified:

Incorrectly applied backdate

- This testing identified one further case where a backdated payment had been incorrectly classified as normal subsidy and one case where normal subsidy had been incorrectly classified as backdated subsidy. There was no net impact on subsidy in either case.

Incorrectly recorded dependent's date of birth

- One incorrect date of birth was identified that had no impact on subsidy.

Incorrect number of dependents recorded on the system

- Two errors were identified that resulted in the underpayment of subsidy. As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified did not affect subsidy and were not, therefore, classified as errors for subsidy purposes.

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 final 2011-12 certification fees, 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 further reduced by 12 per cent, from the indicative fee to reflect the removal of council tax benefit from the scheme.

| | 2012-13 | 2013-14 | |
|--|-----------------|----------------|-----------------|
| | Actual fee £ | Scale fee £ | Actual fee £ |
| Housing (and council tax benefits) subsidy claim | 16,715 | 11,792 | 11,792 |
| National non-domestic rates return ² | 3,085 | N/A | N/A |
| Certification of claims and returns – annual report ¹ | | | |
| Total | 19,800 | 11,792 | 11,792 |

¹ Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

² National non-domestic rates return no longer requires certification

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 £16,660. The actual certification fee for 2014-15 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.

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.

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.

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

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