

# Certification of claims and returns annual report 2013/14

Chichester District Council

January 2015

Ernst & Young LLP



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5 January 2015

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Dear Members

## **Certification of claims and returns annual report 2013/14 Chichester District Council**

We are pleased to report on our certification work. This report summarises the results of our work on Chichester 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. This is the only claim or return subject to certification at the Council.

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 any significant issues.

We are now only required to audit the Council's housing benefit subsidy claim. The total value of this claim is approximately £36.3 million. A number of amendments were made to the claim as a result of our work and we raised a number of issues in a qualification letter. We have made recommendations for improvement which are set out in section 4.

Fees for certification work are summarised in section 2.

We welcome the opportunity to discuss the contents of this report with you at the 22 January meeting of the Corporate Governance & Audit Committee.

Yours faithfully



Paul King  
Director  
Ernst & Young LLP  
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## 1. Summary of 2013/14 certification work

We certified one claim during 2013/14 – the housing benefit subsidy claim. The main findings from our certification work are provided below.

### Housing benefit subsidy claim

| Scope of work                              | Results   |
|--|---|
| Value of claim presented for certification | £36,294,650   |
| Limited or full review                     | Full  |
| Amended                                    | Yes   |
| Qualification letter                       | Yes   |
| Fee – 2013/14                              | £10,463 (including an additional fee of approximately £5,000 that is subject to final agreement by the Audit Commission). |
| Fee – 2012/13                              | £11,371   |

### Recommendations from prior year 2012/13 and findings:

None

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 and carried out further testing in three areas.

Extended '40+' testing and other testing identified a number of further errors. We have reported underpayments, uncertainties and the extrapolated value of overpayment errors to the DWP in a qualification letter. Note that under the approach to housing benefit work no concept of materiality is applied and we must report any errors irrespective of size or the Council make complete amendments to the claim where we are able to do so. The following are the main issues that we included in our qualification letter.

### Uprating of statutory maternity pay

In 2012/13 we identified that statutory maternity pay was not being uprated correctly in all cases. As a result the Council tested all 40 cases where claimants had entitlement to statutory maternity pay during 2013/14. We re-performed a sample of the Council's work. For 11 out of 40 cases statutory maternity pay had not been correctly uprated, but the gross value of overpayments and underpayments arising was only some £26. No amendments were made to the claim in respect of this finding.

### Non-HRA rent rebates

Our initial testing identified:

- ▶ one case where there was a failure to calculate income correctly in the assessment of benefit entitlement which caused an overpayment of benefit;
- ▶ one case where we were unable to agree disclosure on the return of the split of expenditure up to and above the lower of the one bedroom self-contained Local Housing Allowance rate and the upper limit; and
- ▶ one case where an increase in rent had not been correctly applied in the assessment of benefit entitlement which caused an underpayment of benefit.

As a result of the errors leading to an overpayment of benefit an additional sample of 24 cases was tested by the Council. Note that under the approach to housing benefit work specified by the Audit Commission and the DWP, extended testing is only carried out in respect of errors that have led to – or could lead to – overpayments of benefit. We are not required to carry out extended testing in respect of errors that have led to – or could only lead to – underpayment of benefit. The sample of 24 cases constituted the remainder of the entire population of non-HRA rent rebate cases with earned income not covered by the initial sample of 20 cases. We re-performed a sample of the Council's work. Testing of the additional sample identified:

- ▶ one case where it was not possible to support the income used in the calculation of benefit entitlement. It was therefore not possible to determine whether there was an underpayment or overpayment of benefit or subsidy for this case;
- ▶ one case where benefit had been underpaid due to the miscalculation of earnings; and
- ▶ one case where benefit had been overpaid due to the miscalculation of earnings. As we tested the whole population of cases we were able to amend the claim for the value of the overpayments identified by our work. The total value of the amendment made was approximately £36.

### **Rent allowances**

Our initial testing identified:

- ▶ three cases where the claim form could not be traced and the Council was unable to provide evidence that these claim forms were received. This was due to the original claim forms, which pre-dated 2006, being destroyed in a fire at the Council's archive storage. We have not undertaken any further testing in respect of this issue as we are able to conclude that all claim forms received prior to 2006 were destroyed in the fire;
- ▶ two cases where it was not possible to support the income used in the calculation of benefit entitlement. It was therefore not possible to determine whether there was an underpayment or overpayment of benefit and subsidy;
- ▶ one case where incorrect weekly rent had been used in the assessment of benefit entitlement which resulted in an overpayment of benefit; and
- ▶ one further case where incorrect weekly rent had been used in the assessment of benefit entitlement which resulted in an underpayment of benefit. In this case the underpayment resulted from an error in the date the Rent Officer Determination (ROD) was applied, and therefore would only be applicable to cases where there was a ROD in place.

### *Income used in the calculation of benefit entitlement*

As a result of the issues resulting in a potential overpayment of benefit an additional sample of 40 cases was tested by the Council to determine whether income used in the calculation of benefit was supported by evidence. We re-performed a sample of the Council's work. Testing of the additional sample identified:

- ▶ one further case where it was not possible to support the income used in the calculation of benefit entitlement. It was therefore not possible to determine whether there had been an underpayment or overpayment of benefit and subsidy for this case;
- ▶ four further cases where benefit had been underpaid due to the miscalculation of earnings used in the assessment of benefit entitlement; and
- ▶ five further cases where benefit had been overpaid due to the miscalculation of earnings used in the assessment of benefit entitlement.

We extrapolated the overall value of errors in both our initial and additional samples caused by miscalculation of income in the assessment of benefit entitlement which resulted in the overpayment of benefit, but no adjustments were made to the claim. The total extrapolated value of errors was approximately £110,000.

*Incorrect weekly rent used in the assessment of benefit*

As a result of the failures resulting in an overpayment of benefit an additional sample of 40 cases was tested by the Council to determine whether the weekly rent used in the calculation of benefit was supported by evidence. We re-performed a sample of the Council's work. Testing of the additional sample identified no further errors of this type. We extrapolated the value of the error in our initial sample caused by the use of incorrect weekly rent in the assessment of benefit entitlement which resulted in the overpayment of benefit, but no adjustments were made to the claim. The total extrapolated value of the error was approximately £20,000.

*Error in date of Rent Officer Determination being applied*

The Council also tested an additional sample of 40 cases where there was a ROD in place to determine whether the ROD had been applied from the correct date. We re-performed a sample of the Council's work. Testing of the additional sample identified a further two cases where the rent officer determination had not been applied on the correct date. In each of these cases there was no impact on benefit entitlement or subsidy. These cases were not therefore classified as errors for subsidy purposes but the issue was reported as part of our qualification letter.

In a number of cases our re-performance highlighted weaknesses in the additional testing undertaken by the Council which resulted in further audit queries or the work needing to be undertaken again.

We have raised recommendations for improvement as a result of our work. These are set out in Section 4 of this report.

## 2. 2013/14 certification fees

The Audit Commission sets a composite indicative fee for certification work for each body. The indicative fee for 2013/14 was initially based on actual certification fees for 2011/12, reduced by 40%. This was then further adjusted to reflect the fact that a number of schemes would no longer require auditor certification, and a 12% reduction was also applied to the Housing Benefit Subsidy claim due to the replacement of Council Tax Benefit with Council Tax Support from 1 April 2013 which is not part of that claim.

The indicative composite fee for Chichester District Council for 2013/14 was £5,456.

| Claim or return                          | 2013/14        | 2013/14       | 2012/13       |
|--|----------------|---------------|---------------|
|  | Indicative fee | Actual fee    | Actual        |
|  | £              | £             | £             |
| Housing and council tax benefits subsidy | 5,456          | 10,463*       | 11,371        |
| <b>Total</b>                             | <b>5,456</b>   | <b>10,463</b> | <b>11,371</b> |

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

*\* Includes a proposed additional fee of £5,007 that is subject to approval by the Audit Commission.*

The indicative housing benefit subsidy fee was set based on work completed in 2011/12, when no additional '40+' testing was required to be undertaken and the claim was not subject to either amendment or qualification. Additional fee has therefore been sought to cover the cost of the extra work which has been required in 2013/14. The actual fee in 2013/14 is lower than the actual fee for 2012/13 due to the removal of Council Tax Benefit from the claim.



### 3. Looking forward

The Council's indicative certification fee for 2014/15 is £10,010. This is based on the outturn from 2012/13 certification work, again adjusted for claims no longer requiring review. 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. 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/individual-indicative-certification-fees/>

We must seek the agreement of the Audit Commission, or its successor body, 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. This is to help with the transition to new certification arrangements, such as those Teachers' Pensions introduced for the Teachers' Pensions return for 2013-14.

## 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 |
|---|----------|---|-----------------------------|---------------------|
| Improve the control environment for the assessment of benefit. In particular ensure that income is assessed correctly in the determination of benefit entitlement and that the assessment made is supported by sufficient and appropriate evidence. | H        | Regular accuracy checks are now being carried out by the team leaders. Two training sessions have been arranged to go through, in particular, the assessment of earnings to ensure a consistent approach. | With immediate effect       | Benefits Manager.   |
| Ensure that any additional testing undertaken to support the audit of the 2014/15 Housing Benefit Claim is clearly documented and properly supported by evidence.   | H        | Noted   | For the 2014/15 claim audit | Benefits Manager.   |

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