

Certification of claims and returns annual report 2013/14

Brighton & Hove City Council

December 2014

Ernst & Young LLP



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16 December 2014

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Dear Members

Certification of claims and returns annual report 2013/14 Brighton & Hove City Council

We are pleased to report on our certification work. This report summarises the results of our work on Brighton & Hove City 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 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 2013/14 certification work and highlights the significant issues.

We checked and certified two claims and returns with a total value of £170,141,305. We met all submission deadlines. We issued a qualification letter for the Housing Benefits claim, and details of the qualification matters are included in section 1.

Our work to audit your pooling of housing capital receipts return found errors in both the final return, and each of the quarterly returns used to generate the final return. The return was subject to amendments to correct for these errors. Last year we concluded there were weaknesses in supervision and review arrangements for the pooling of housing capital receipts return and raised a recommendation for improvement. Based on our work this year we have concluded that the recommendation had not been satisfactorily implemented and have therefore raised a similar recommendation for improvement 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 Audit & Standards Committee on 13 January 2015.

Yours faithfully



Helen Thompson
Director
Ernst & Young LLP
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1. Summary of 2013/14 certification work

We certified 2 claims and returns 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	£163,594,805
Limited or full review	Full
Amended	Not amended
Qualification letter	Yes
Fee – 2013/14	£21,276
Fee – 2012/13	£21,052
Recommendations from prior year 2012/13:	
None	

Councils run the Government's housing benefits scheme, and 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 which all related to the miscalculation of earned income in the assessment of benefit entitlement and carried out three sets of extended testing covering housing revenue account rent rebates, non-housing revenue account rent rebates and rent allowances.

The extended testing identified a small number of cases where similar errors had occurred. We extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. No amendments were made to the claim. This was because, given the nature of the populations tested, it was unlikely that even significant additional work would result in amendments to the claim that would allow us to conclude it was fairly stated. We reported the extrapolated value of these errors to the DWP in a qualification letter.

Our testing of modified schemes identified one case where the income from war widows' pensions was not correctly recognised in the assessment of benefit entitlement. We were satisfied from our work that war widow pension income information had been correctly input to the Northgate benefits system and therefore that the error in the calculation of expenditure under the modified scheme is systematic. We were also satisfied that the effect of the error results in an underpayment of subsidy. The Council referred this issue to the software supplier for resolution. The Council also checked the complete population of effected cases. Based on this work we are satisfied that the issue is isolated. We also reported this issue in our qualification letter to the DWP.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£ 6,546,500
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2013/14	£1,339
Fee - 2012/13	£1,437

Recommendations from prior year 2012/13 and findings:

Findings:

The Council had incorrectly disclosed capital receipts arising from transfers of council dwellings to a not for profit charitable company, Seaside Community Homes, as receipts arising from a small scale voluntary transfer. The receipts arising from the dwelling transfers should have been properly categorised as receipts subject to pooling offset by capital allowances. The resulting errors impacted on both the year end return and each of the 2013/14 quarterly pooling returns made by the Council to CLG.

A large number of the entries on the return were amended as a result of this finding.

Recommendation:

Improve arrangements for the preparation and review of quarterly submissions to the Department of Communities and Local Government and the year-end audit return.

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government (DCLG). Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities that have a housing function, 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. The year end audit return is based on four detailed quarterly returns made to DCLG.

Our detailed testing of one quarterly return showed that the Council had made errors in the classification of right to buy disposal details in the DCLG worksheet used to generate the nominal price valuation of the disposals disclosed in the return. We therefore extended the testing to cover all quarterly returns and found similar errors in each quarter. All quarterly returns were therefore subject to amendment for this issue.

We also found an expenditure amount had been entered on an incorrect basis to the year end pre-audit return produced by the Council. A new audit return needed to be generated for all of the adjustments made.

Last year we concluded that there were weaknesses in supervision and review arrangements for the pooling of housing capital receipts return and raised a recommendation for improvement. Based on our work this year we have concluded that the recommendation had not been satisfactorily implemented and have therefore raised a similar recommendation for improvement.

2. 2013/14 certification fees

The Audit Commission sets 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 which is not part of that claim.

The indicative composite fee for Brighton & Hove City Council for 2013/14 was £21,602.

Claim or return	2013/14	2013/14	2012/13
	Indicative fee £	Actual fee £	Actual
Housing [and council tax] benefits subsidy	21,276	21,276	21,052
Pooling of housing capital receipts return	326	1,339	1,437
Teachers' superannuation return	n/a	n/a	3,120
National non-domestic rates return	n/a	n/a	900
Total	21,602	22,615	26,509

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

Fees fell overall due to the reduction in claims requiring certification.

Housing Benefits Subsidy

The indicative fee was set based on work completed in 2011/12, when a similar level of additional 40+ testing was undertaken on the claim, and a qualification letter issued.

We found a similar number of errors this year, and we were able to deliver our work within planned scale fee.

Pooling of housing capital receipts

Due to errors identified in the prior year, we undertook more extensive testing than assumed by the scale fee set. We have agreed the additional fee with the Assistant Director – Finance & Procurement. The additional fee has also been approved by the Audit Commission.

We found errors in our initial testing which caused us to extend the scope of our work and make a number of amendments to the return.

3. Looking forward

The Council's indicative certification fee for 2014/15 is £18,530. This is based on the outturn from 2012/13 certification work, 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.

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.

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
Pooling of housing capital receipts				
Improve arrangements for the preparation and review of quarterly submissions to the Department of Communities and Local Government and the year-end audit return.	H	Agreed	For the 2014/15 return	Nigel Manvell, Assistant Director – Finance and Procurement

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