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INVESTOR IN PEOPLE

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28 February 2014

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Dear Member

Certification of claims and returns annual report 2012-13 Merton Council

We are pleased to report on our certification work. This report summarises the results of our work on Merton Council's 2012-13 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 2012-13, 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 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 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £197,155,118. We met all submission deadlines. For one of these claims, the Council did not meet the submission deadline of the draft return (the Teachers' superannuation final return). We issued two qualification letters - for one claim and one return. Details of the qualification matters are included in section 2.

Our certification work found errors in the housing and council tax benefits subsidy claim which the Council amended where the full effect of these was known. We carried out extended testing in 16 areas as a result of errors found in our initial testing. In addition the Council also carried out further work in one area where we had carried out extended testing. We reviewed that work and reported our findings separately to the Department for Work and Pensions (DWP). The Teachers' superannuation final return did not require amendment but we reported on errors in the interim returns made by the Council during the year. The National non-domestic rates return did not require amendment.

The Council has implemented some of the recommendations from last year. Details are included in section 1. However, further improvements in the arrangements for submission of one return and in supporting the underlying accuracy of information in another are required. We have made three recommendations this year. These are set out in section 3.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 and their values after the 40% reduction to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the General Purposes Committee meeting on 12 March 2014.

Yours faithfully



Paul King
Director
Ernst & Young LLP

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Certification of claims and returns annual report 2012-13

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1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£104,074,612
Limited or full review	Full
Amended	Amended – subsidy reduced by £435 (although there will be a much larger reduction in subsidy to the Council due to extrapolation of errors and uncertainties in the qualification letter)
Qualification letter	Yes
Fee - 2012-13	£42,910 (under discussion due to additional work carried out on extended testing compared to previous years; and specifically including £350 agreed with the Council for completion of work on modified schemes and £750 for the review and reporting of the additional testing on child tax credits).
Fee - 2011-12	£57,679 total* * Note - £40,952 paid to the Audit Commission in respect of their initial work on the 2011-12 claim, and £16,727 paid to Ernst & Young LLP to complete work on the claim and its certification
Recommendations from 2011-12:	Findings in 2012-13
Maintain targeted training for officers in areas where persistent issues remain.	Further targeted training is still required for officers preparing subsidy claims in those areas identified in the 2012-13 and prior year qualification letters.
Increase the sample review of cases for those areas where there is a higher potential risk of loss of subsidy in advance of submission of the claim.	We identified errors in 2012-13 in a more areas where there is a higher risk of loss of subsidy. Formal implementation of a sample review of cases did not occur during the year. A rolling review of a sample of cases will be implemented to ensure quality and consistency standards are met - recommendations in section 4.
Reduce to nil the un-reconciled differences in the reconciliation to the systems used to compile the claim.	Minor differences remained in the reconciliation to systems used to provide elements of the subsidy claim.
Introduce procedures to review all manual adjustments before submission of the claim for audit.	We reviewed manual adjustments to the claim; some of these were incorrect and required further testing. Procedures required to review all manual adjustments before submission of the claim and ensure there is supporting documentation to explain these amendments.

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 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 16 areas (in 2011-12 extended testing was carried out in five areas). We have reported underpayments, uncertainties and the extrapolated value of other errors to the DWP in a qualification letter. We produced the qualification letter in accordance with the requirements of the DWP. This identified errors in the areas of rent rebates, rent allowances and council tax benefit. The claim was also adjusted for specific errors identified and agreed as part of the work. These amendments had a small net impact on the claim. The extrapolation of other errors and uncertainties is likely to have a larger impact on the level of subsidy due to the Council.

We identified errors and uncertainties in a number of areas and included these in our qualification letter:

- ▶ overstatement of housing and council tax benefit due to miscalculation of private pension allowances, calculation of claimants' main earnings and capital, and miscalculation of allowances for regulated tenancies. With the exception of main earnings, these areas were not reported in last year's qualification letter. Officers will focus on accuracy in these areas to ensure these income calculation errors will not occur in the future;
- ▶ errors in housing and council tax benefit awarded resulting from self-employed earnings calculated incorrectly. This is a more complex area and further training and peer review are proposed to reduce the level of errors;
- ▶ miscalculation of working tax credits (WTCs) and child tax credits (CTCs) in benefit calculations. The Council did not consider the extrapolation that we calculated based on the errors identified on CTCs as representative and carried out their own further testing in addition to the initial and extended testing that we carried out. We then reviewed and reported separately to the DWP on the overall findings and results, including the further testing undertaken by the Council. The Council has since written to the DWP as it considers there are existing and known systems issues with the interface with central government systems that provide the figures for the claim in this area, and asked that these are reflected in any decision made on the extrapolation of errors and resulting loss of subsidy;
- ▶ errors in more technical areas of the claim relating to council tax and rent rebates that can be claimed and treated as overpayments under current regulations. Some of these were areas covered in last year's qualification letter. These are more complex areas and further training and peer review are proposed to reduce the level of errors – and the loss of subsidy and direct costs to the Council for administering these benefits.

The Council needs to ensure the overall accuracy of claim review is improved as the overall number of areas where errors were identified has increased – and some of these were also identified in previous years. Improving communication, and accuracy of transfer of information, between officers working in the benefits, council tax and housing needs departments would reduce errors. Our extended testing identified cases where the changes in council tax and rents were notified but not updated, or updated incorrectly, in the benefits system.

We will discuss our approach for future years with the Council. This could include moving directly to extended testing in those areas where failures are likely to be identified in initial testing, rather than making the decision on whether to extend testing only after completion of the initial testing. The advantage of this approach would be that we and the Council would be able to plan more effectively for carrying out all the work likely to be required.

Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	11,145,651
Limited or full review	Full
Amended	No
Qualification letter	Yes – see below
Fee - 2012-13	£2,371
Fee - 2011-12	£1,867
Recommendations from 2011-12:	Findings in 2012-13
None	Return not submitted to auditor by due date and in correct format with incorrect contributions figure.

The Teachers' Pension Scheme is a contributory pension scheme run separately from the local government pension scheme and administered by Teachers' Pensions on behalf of the Department for Education. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government. Auditors are required to carry out checks on the return made.

We issued a qualification letter on the return for the following reasons:

- ▶ The Council did not submit the original return for certification by the deadline of 30 June 2013; we received the return on 14 October 2013. The return as presented was also on the incorrect form;
- ▶ The return included an incorrect pre-populated figure for 'Contributions Paid'. The explanation provided by the Council was that, with the movement to a shared service payroll provider at the beginning of the 2012-13 financial year, there were changes in the personnel responsible for the Council's returns to Teachers' Pensions. These returns included a number of errors in the 'Contributions Paid' figure, including a school that was not the responsibility of the Council. The officers responsible for the year end return identified these errors and amended the claim accordingly. Our programme of work to support certification of the claim supported the revised, annotated figure as being fairly stated.

There were no other issues identified from our programme of work.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£81,934,855
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£3,750
Fee – 2011-12	£6,246
Recommendations from 2011-12:	Findings in 2012-13
None	None

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

2. 2012-13 certification fees

For 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 fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Merton Council for 2012-13 was £42,450. The actual fee for 2012-13 is under discussion and subject to determination by the Audit Commission and is £50,597. This compares to a charge of £67,492 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Housing and council tax benefit subsidy claim	57,679#	35,560	42,910*
Teachers' superannuation return	1,867	1,450	2,371
National non-domestic rates return	6,246	3,171	3,750
Certification of claims and returns - annual report	1,700	2,269	1,566
Total	67,492	42,450	50,597

- not disclosed in last year's certification of claims report as subject to discussion with the Council and Audit Commission. Fee is as agreed with the Council and Audit Commission in July 2013.

* - fee under discussion and subject to determination by the Audit Commission.

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction. However after allowing for the 40% reduction there was an increase in fees for the following claims and returns:

► **Housing and council tax benefit subsidy**

The actual fee for the 2011-12 work was agreed in July 2013 following discussion with the Council and the Audit Commission due to part-completion of the claim by the outgoing Commission auditors, and completion of the work and certification of the claim by Ernst & Young LLP. The Audit Commission indicative fee for 2012-13 was based on the actual fee in 2010-11, reduced by 40%. This included extended testing in 11 areas. The actual fee for 2012-13 increased compared to the 2012-13 indicative fee as we undertook extended testing in 16 areas. We also carried out further work to review the Council's further testing and report our findings to the DWP in one area (child tax credits).

► **Teachers' superannuation**

The Audit Commission indicative fee for 2012-13 was based on the fee for the full review done in 2010-11, reduced by 40%. An increase in the 2012-13 actual fee compared to the indicative fee was due to the delays in submission, use of the incorrect return and additional work to confirm the correct contributions paid as an incorrect figure was used on interim returns.

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Commission set the Council's indicative certification fee for 2013-14 as £54,500. This was based on the 2011-12 estimated position at the beginning of February 2013, prior to the subsequent agreement of the additional work carried out on the housing benefit and council tax subsidy claim (as set out on page 6). Therefore this indicative fee may be subject to change by the Audit Commission. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 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/201314-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 2011-12 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. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

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 and council tax benefits subsidy claim Implement a rolling programme of peer review of a sample of new and existing claims to drive up overall accuracy and completeness of claims and further improve the level of expertise among claims officers.	High	Agreed – implementation of a monthly peer review of new and existing claims from the previous month, using a validation spreadsheet tool to check that calculation of entitlement is correct and agrees to sufficient supporting evidence. This will involve all officers looking at 5 new and 5 existing claims, with team managers checking all ‘fails’ and a sample of ‘passes’.	In place by 31 March 2014	Caroline Holland Director of Corporate Services David Keppler Head of Revenues and Benefits
Continue with an ongoing programme of targeted training in those areas identified in this year’s work as ‘easy wins’ and refresher training in those areas of greater complexity and where errors occurred in this and previous years.		Agreed – training in place to address those areas where ‘easy wins’ are available in application of standards. For more complex areas – and where recurrent issues in this and prior year claims – will tie in training with the rolling review programme above to embed correct approach and drive up levels of expertise among claims officers.		
Ensure review of all manual adjustments to the claim prior to submission. Teachers’ Superannuation Return		Agreed – recommendation made last year and will ensure this is carried out.		
Ensure future returns are completed on the correct form, in accordance with the required timescales and are based on the correct information for ‘contributions paid’	High	Agreed - the late return, incorrect use of the final claim form and error in the initial contributions paid figure resulted from changes in the payroll provider function. These will not occur in future	In place for 2013-14 return	Dean Shoesmith Joint Head of Human Resources (Merton and Sutton) David Coates Interim Payroll Client Team Manager

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