

**Certification of claims and
returns annual report 2013-14**

Merton Council

February 2015

Ernst & Young LLP





Ernst & Young LLP
Apex Plaza
Forbury Road
Reading RG1 1YE

Tel: + 44 118 928 1556
ey.com

The Members of the General Purposes Committee
Merton Council
Civic Centre
London Road
MORDEN SM4 5DX

20 February 2015

Direct line: 0118 928 1556
Email: PKing1@uk.ey.com

Dear Members

Certification of claims and returns annual report 2013-14 Merton Council

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

In previous years we certified the national non-domestic rates return; this return no longer applies with the changes in the system for collection and distribution of non-domestic rates. We also agreed a separate engagement to provide an independent reasonable assurance report on the Council's Teachers' Pension Return EOYCa 2013-14 in accordance with guidance issued by Teachers' Pensions. This engagement was carried out in agreement with the Council – it no longer falls within the programme of work agreed between the Audit Commission and central government departments.

We certified one claim with a total value of £92,250,409. For this claim (housing benefit and council tax benefit subsidy claim) the original Department of Work and Pensions (DWP) submission deadline of 28 November 2014 was not met due to the need to agree the qualification letter. The certified claim and accompanying qualification letter were submitted on 4 December 2014. Details of the qualification matters are included in section 1 of the report.

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 14 areas as a result of errors found in our initial testing.

The Council has implemented some of the recommendations from last year. Details are included in section 1. However, further improvements in the arrangements – and in embedding existing arrangements - are required. We reiterate two recommendations and made two additional recommendations this year. These are set out in section 4.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2013-14. We have included the actual fees for 2011-12 and 2012-13 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 2015.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Paul King', is located below the 'Yours faithfully' text. The signature is written in a cursive style.

Paul King
Director
For and behalf of Ernst & Young LLP
United Kingdom

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Contents

1. Summary of 2013-14 certification work	2
2. 2013-14 certification fees.....	4
3. Looking forward.....	5
4. Summary of recommendations	6

1. Summary of 2013-14 certification work

We certified one claim under the Audit Commission arrangements in 2013-14. 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	£92,250,783
Limited or full review	Full
Amended	Amended – subsidy reduced by £374 (although there is likely to be a larger reduction in subsidy to the Council due to extrapolation of errors and uncertainties in the qualification letter)
Qualification letter	Yes
Fee – 2013-14	£54,989 (this includes additional work undertaken by EY on completion of extended testing workbooks)
Fee - 2012-13	£42,910
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 EY to complete work on the claim and its certification.
Recommendations from 2012-13:	Findings in 2013-14
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.	We continued to identify errors in 2013-14 in more areas where there is a higher risk of loss of subsidy. The rolling review was implemented towards the end of the 2013-14 year so these arrangements were not embedded for most of the period covered by our work.
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.	As reported last year, further targeted training is still required for officers preparing subsidy claims in those areas identified in the 2013-14 and prior year qualification letters. These include both known areas where errors occur and new areas where errors occurred in 2013-14. Again, the programme of targeted training was only implemented towards the end of the 2013-14 year. Also, some of the errors identified extend back over a number of years.
Ensure review of all manual adjustments to the claim prior to submission.	We did not identify any issues with manual adjustments to the 2013-14 claim prior to submission.

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 14 areas (in 2012-13 we carried out extended testing in 16 areas, of which 5 were in respect of council tax benefit, which due to the localisation of council tax support did not apply in 2013-14). 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; submission was delayed beyond the DWP deadline of 28 November 2014 to enable Council officers to check the factual accuracy of the information supporting the errors identified and the extrapolations made. The letter identified errors in the areas of rent rebates and rent allowances. 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 benefit due to miscalculation of private pension allowances and calculation of claimants' main earnings occurred this year. We have reported on similar errors in previous years' qualification letters. In addition, we also identified misstatement of housing benefit due to miscalculation of state retirement pension. Officers will need to continue to focus on accuracy in these areas to ensure these income calculation errors will not occur in the future;
- ▶ errors in housing benefit awarded resulting from self-employed earnings calculated incorrectly. We have reported on similar errors in previous years' qualification letters. This is a more complex area and further training and peer review are required to reduce the level of errors;
- ▶ miscalculation of working tax credits (WTCs) and child tax credits (CTCs) in benefit calculations. Last year the Council wrote to the DWP as it considered there were existing and known systems issues with the interface with central government systems that provide the figures for the claim in this area, and that these were reflected in any decision made on the extrapolation of errors and resulting loss of subsidy. This year, at the request of DWP, we presented an extrapolation excluding two cases with large adjustments, one of which was also due to an error in importing data from a central government system. The other case was due to officer error in calculating benefit payable. As these individual cases can involve large sums which, when extrapolated, can reduce significantly the amount of subsidy the Council is able to claim, it is important that these calculations are accurate;
- ▶ overstatement of housing benefit due to miscalculation of a discretionary housing payment and a carer premium. The discretionary housing payment was due to a system error, now corrected for payments in 2014-15. We did not identify further errors in our extended testing of carer premium.

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 many of these were also identified in previous years.

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.

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. For 2013-14, the indicative fee was based on actual certification fees for 2011-12 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 2013-14, once these adjustments were made, was £46,989. The actual fee for 2013-14 is as agreed by the Audit Commission. The fee is £54,989. This compares to a charge of £50,721 in 2012-13.

Claim or return	2011-12	2012-13	2013-14	2013-14
	Actual fee	Actual fee	Indicative fee	Actual fee
	£	£	£	£
Housing and council tax benefit subsidy claim	57,679	42,910*	46,989#	54,989
Teachers' superannuation return	1,867	2,371	0	0
National non-domestic rates return	6,246	5,440	0	0
Certification of claims and returns - annual report	1,700	Included in fee above	Included in fee above	Included in fee above
Total	67,492	50,721	46,989*	54,989

- original indicative fee of £54,500 adjusted by Audit Commission for 12% reduction for removal of council tax benefit work.

* Overall, fees fell overall compared to 2012-13 because of the Audit Commission's 12% reduction for removal of council tax benefit work from the housing and council tax benefit subsidy claim; removal of the teachers' superannuation return from the Commission's certification regime; and no requirement in 2013-14 to certify a national non-domestic rates return. However after allowing for the reduction there was an increase in fees:

Housing and council tax benefit subsidy

The Audit Commission indicative fee for 2013-14 was based on an interim fee set in early 2013 for the 2011-12 audit, reduced by 40%. The actual fee for the 2011-12 work was agreed in July 2013 following discussion with the Council and the Audit Commission. This actual fee was lower than the figure used to calculate the 2013-14 indicative fee.

The indicative fee for 2013-14 was based on extended testing in 5 areas. The actual fee for 2013-14 increased as we undertook extended testing in 14 areas. We agreed with officers that, due to resource constraints within the Revenues and Benefits section, we would carry out full completion and re-performance of 6 of the 14 extended testing workbooks. We also carried out full re-performance on all cases on an additional 2 extended testing workbooks completed by officers in accordance with the certification instructions. This was due to the level of errors identified. The increase between indicative and actual fee of £8,000 was due to the additional areas of extended testing and full re-performance of two workbooks (£4,000) and to cover the additional resources to complete the 6 workbooks (£4,000).

3. Looking forward

The Council's indicative certification fee for 2014-15 is £37,760. This was based on the position at the beginning of March 2014. This was based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification. The actual certification fee for 2014-15 may be higher or lower 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. 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.

During 2013-14 we acted as reporting accountants in relation to the Teachers Pensions scheme.

We have reported separately to the Council, through our progress report to the General Purposes Committee, in relation to this return. This work has been undertaken outside the Audit Commission regime, and the fees for this are not included in the figures included in this report. Fees for this work were £10,000. They are referred to here for completeness to ensure to ensure Members have a full understanding of the various returns on which we provide some form of assurance. We did not identify any significant issues as part of this work that need to be brought to the attention of Members.

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				
Embed and extend 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. Implement measures to demonstrate improvement in performance in accuracy and completeness in these areas.	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 2015	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.	In place by 31 March 2015	Caroline Holland Director of Corporate Services David Keppler Head of Revenues and Benefits
Carry out earlier work on completing initial and extended testing workbooks to help with project management of the schedule of work required to enable timely certification of the claim by external audit		Agreed – external audit will carry out and complete the initial testing workbooks in April 2015 to allow identification of those areas requiring extended testing. Revenues and Benefits team will focus appropriate resources on earlier completion of these	In place by 31 March 2015	David Keppler Head of Revenues and Benefits

workbooks to enable an earlier completion. Monthly review and update process will also ensure early action taken.

Identify and carry out early review of those cases where there are potential issues around failure of transfer of information from central government systems.

Head of Revenues and Benefits has raised queries with DWP in four of the areas covered by the 13-14 qualification letter and is awaiting a response. Sample checking by the benefits team has not identified any additional cases of ATLAS import errors (which date back to previous years); however the Head of Revenues and Benefits is seeking help from the Council's benefits software supplier to establish whether identification and random sampling of such cases is possible.

Dependant on timing and content of DWP response.

By end May 2015

David Keppler
Head of Revenues and Benefits

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

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