

The Members of the Standards and Audit Committee  
Thurrock Council  
Civic Offices  
New Road  
Grays  
Essex  
RM17 6SL

24 January 2014

Ref: TUC/Grant report 202/13  
Your ref:

Mobile: 07974 006715

Email: dhanson@uk.ey.com

Dear Member

## **Certification of claims and returns annual report 2012-13 Thurrock Council**

We are pleased to report on our certification work. This report summarises the results of our work on Thurrock 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.

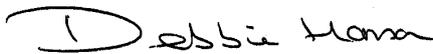
We checked and certified four claims and returns with a total value of £173,502,573. We met all submission deadlines except for our certification of the Pooled Capital Receipts return, where problems with the Department's portal for submission did not enable us to submit on time despite all work having been completed. 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 which the Council corrected. The amendments had a marginal affect on the grant due.

***We have made three 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 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 Standards and Audit Committee on 6 February 2014.

Yours faithfully



Debbie Hanson  
Director  
Ernst & Young LLP

Enc

## **Certification of claims and returns annual report 2012-13**

### **Contents**

<b>1. Summary of 2012-13 certification work.....</b>	<b>1</b>
<b>2. 2012-13 certification fees .....</b>	<b>4</b>
<b>3. Looking forward .....</b>	<b>5</b>
<b>4. Summary of recommendations.....</b>	<b>6</b>

## 1. Summary of 2012-13 certification work

We certified 4 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	£71,861,667
Limited or full review	Full
Amended	Amended – subsidy reduced by £453.
Qualification letter	Yes
Fee - 2012-13	£23,870
Fee - 2011-12	£39,066
Recommendations from 2011-12:	Findings in 2012-13
Provide further training for housing benefit assessors on an ongoing basis. This should particularly focus on the identification of backdates, accuracy of information to support the benefit entitlement calculation and non-dependent deductions.	Training has been provided. Fewer errors overall have been identified this year, although calculation and classification of overpayments remain a weakness. Training should therefore continue and in particular cover overpayment calculation and classification.

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 or where we have identified a specific risk from previous years claims. We found errors and carried out extended testing in several areas.

Extended '40+' testing and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties 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:

- income and overpayments incorrectly calculated on rent rebate and rent allowances;
- misclassification of rent rebate and rent allowance overpayments;
- local housing authority rent incorrectly applied resulting in overstated benefit entitlement; and
- differences in the reconciliation between the Northgate benefit software and the benefit granted included in the claim.

Fewer errors overall have been identified this year, although calculation and classification of overpayments remain a weakness.

### Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	5,300,753.90
Limited or full review	Full review
Amended	Yes
Qualification letter	Yes
Fee - 2012-13	£4,234.00
Fee - 2011-12	£3,925.50
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
No specific recommendations	No issues identified that would result in a recommendation.

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.

Officers identified one minor error on the return which was corrected and the claim replaced prior to audit. This reduced the grant due by £31.73.

Our initial testing of the analysis in the claim of pensionable contributions and contributory salary by percentage tier identified that one member of staff was included in the wrong tier. This arose when the pensionable pay was amended after input to the system, but tier rate was not updated. As we could not determine if this was an isolated error, we extended our testing. We did not identify any further errors. We extrapolated the error over the population of the claim and determined that the extrapolated error would decrease the entry in the total teachers' contributions by £3,089.77.

However, this would not affect the total value of the claim submitted to the department.

### National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£93,031,582.19
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£1,960.00
Fee – 2011-12	£7,433.50
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
No specific recommendations	A number of errors were identified in the 2012-13 return which indicates the need for more robust processes and quality assurance arrangements for the production of this return.

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 identified a number of errors on the national non-domestic rates return which were amended before submission. These related to:

- transitional relief cases which could not be agreed, specifically relating to Port Tilbury;
- transitional relief incorrectly awarded to an LEA school; and
- revised calculation of the provision for doubtful debts.

These amendments increased the total amount payable to the pool by £1.053 million and we certified the amount payable without qualification.

The NDR3 claim will not be subject to audit certification in 2013-14 and it is therefore important that the Council improves the processes and quality assurance arrangements for the production of this return to ensure errors similar to those identified in 2012-13 and previous years to not occur in the future.

### Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£3,308,570
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£890
Fee – 2011-12	£793
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
No specific recommendations	No issues identified that would result in a recommendation.

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, 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 claim was amended for a number of minor errors relating to the calculation of interest, quarterly attributable debt and a typing error on quarter four housing receipts. This reduced the total capital receipts subject to pooling by £270 and had no overall impact on the poolable amount. 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 Thurrock Council for 2012-13 was £28,950. The actual fee for 2012-13 was £30,954. This compares to a charge of £53,343.50 in 2011-12.

Claim or return	2011-12 Actual fee £	2011-12 2011-12 fee less 40% reduction £	2012-13 Indicative fee £	2012-13 Actual fee £
Housing and council tax benefits subsidy claim	39,066.50	23,439.90	23,870.00	23,870.00
Teachers' superannuation return	3,925.50	2,355.30	2,230.00	4,234.00
National non-domestic rates return	7,433.50	4,460.10	1,960.00	1,960.00
Pooling of housing capital receipts	793.00	475.80	890.00	890.00
HRA subsidy	1,551.00	930.60	0	0
Certification of claims and returns - annual report *	574.00	344.40	0	0
<b>Total</b>	<b>53,343.50</b>	<b>32,006.10</b>	<b>28,950</b>	<b>30,954</b>

\* Fees for annual reporting have been allocated directly to the claims for 2012/13

Fees fell overall compared to 2011/12 because of the Audit Commission's 40% reduction and the fact that the HRA subsidy claim no longer required auditor certification. However, allowing for these reductions there were variations in fees for the following claims and returns:

► **Teachers' superannuation**

The actual fee in 2012-13 increased compared to the indicative fee for the year due to change in claim compilation which occurred in 2012/13, the errors identified and the issue of the qualification letter on the return.

► **National non-domestic rates**

Both the scale and actual fee for 2012-13 reduced compared to 2011/12 due to the fact that there were specific problems with the claim in 2011-12 compared to previous years. Improvements have been made in the quality of working papers provided to audit and in responding promptly to audit queries in 202-13. .

### 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 Council's indicative certification fee for 2013-14 is £26,600. 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.

The 2011-12 certification report issued by the Council's previous auditors made the following general recommendations in relation to grant claim arrangements:

- Improve the control environment for the completion of claims by introducing a second officer review of each claim and working papers before submission to audit. This review should be evidenced and should ensure the claim is complete, agrees to underlying records, and is consistent with management knowledge and expectations. Officers should also read and follow the current guidance rather than following the previous year's working papers. This should also be evidenced on the grant claim file.
- Officers responsible for producing claims and returns that include figures from the financial statements should liaise with colleagues in the finance department who are responsible for completing the financial statements. This should ensure the implications for grant claims are identified and addressed and that any changes to the financial statements are also reflected in the claims and returns.

Our findings from the audit of the claims and returns in 2012-13 indicate that there remains room for improvement in the overall arrangements for the production of claims and returns in a number of areas. We have therefore included a recommendation relating to the overall control environment for claims.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
<b>Overall control environment:</b> The Council should improve the control environment for the completion of claims. This could include introducing a second officer review of each claim and working papers before submission to audit to ensure the claim is complete, accurate, agrees to underlying records, and is consistent with management knowledge and expectations.	Medium	Agreed	March 2014	Head of Corporate Finance
<b>Housing and council tax benefits subsidy claim:</b> Training for housing benefits assessors should continue and in particular cover overpayment calculation and classification and LHA rent	Medium	Agreed	March 2014	Head of Corporate Finance
<b>National non domestic rates return:</b> More robust processes and quality assurance arrangements should be put in place for the production of this return to ensure errors similar to those identified in 2012-13 and previous years to not occur in the future	High	Agreed	March 2014	Head of Corporate Finance

Ernst & Young LLP

Assurance | Tax | Transaction | Advisory

[www.ey.com/uk](http://www.ey.com/uk)

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited

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

© Ernst & Young LLP 2014. Published in the UK.  
All rights reserved.