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27 February 2014

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Dear Member

Certification of claims and returns annual report 2012-13 Oxford City Council

We are pleased to report on our certification work. This report summarises the results of our work on Oxford City 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 £157,088,234. We met all submission deadlines. We issued one qualification letter for the housing and council tax benefits subsidy claim. Details of the qualification matters are included in section 1. The number of issues we identified involved us doing more work than we had planned and we will need to charge additional fee of £4,400. The fee is subject to Audit Commission approval.

We made one recommendation last year relating to the classification of housing and council tax overpayments and we found no issues when testing this area of the claim this year.

We have made 8 recommendations this year. These are summarised 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 27 February 2014.

Yours faithfully



Maria Grindley
Director
Ernst & Young LLP

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Certification of claims and returns annual report 2012-13

Contents

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

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	£75,822,955
Limited or full review	Full
Amended	Amended. Subsidy reduced by £190
Qualification letter	Yes
Fee - 2012-13	£33,488 plus additional fee request of £4,400
Fee - 2011-12	£63,288
Recommendations from 2011-12:	
Increase sample checking and training to ensure classification of overpayments is correctly recorded in the system.	We found no issues when testing this area of the claim this year.

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 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:

We found:

- a larger number of errors this year that resulted in additional testing. In 2012/13 we had to complete six lots of 40 plus testing compared to two lots in 2011/12,
- that the resources provided by the Council to complete workbooks and respond to our queries was not sufficient in number,
- errors when reviewing claims with student income,
- errors in the assessments completed by temporary staff who have subsequently left,
- errors in the categorisation between HRA and Non HRA,
- errors in assessment of claims with child care disregards,
- errors in earnings calculations,

- the reconciliation of subsidy to software balancing report contained four unresolved items. These may be due to the Council being the only pilot site in 2012/13 for the 'Direct payment pilot demonstration project' that uses the Academy system and there is an issue with how the system deals with un-cashed and cancelled BACS payments, and
- three cases where the authority was unable to recalculate the amount of subsidy for the purposes of completing the workbooks.

We carried out additional work during 2013 as requested by the DWP on an issue in our 2011/12 qualification letter. Additional sampling was completed to inform our extrapolation of the error relating to rent allowance eligible overpayments. The results of the additional testing indicate that a number of overpayments were being incorrectly classified. Whilst this has not impacted on the level of benefit paid, the classification of overpayments can have an effect on the amount of subsidy the Council can claim back. The additional fee for this work was £2,340.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£80,422,679
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£2,062
Fee – 2011-12	£3,325
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.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£842,600
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,250
Fee – 2011-12	£2,236
Recommendations from 2011-12:	Findings in 2012-13
None	None

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.

We found no errors on the pooling of housing capital receipts 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% reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Oxford City Council for 2012-13 was £36,800. The actual fee for 2012-13 was £41,200*. This compares to a charge of £45,606 in 2011-12 (less 40% reduction). We have delivered a 55% fee reduction in 2012/13.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee £	2011-12 fee less 40% reduction £	Indicative fee £	Actual fee £
Certification of claims and returns - annual report	72,609	44,586	36,800	41,200*
Grant planning, supervision and review (1)	1,700	1,020	0	0
Total	74,309	45,606	36,800	41,200*

Grant planning, supervision and review (1) is included in the indicative fee proposed by the Audit Commission.

We also charged an additional fee in 2012/13 following a request by the DWP to review work undertaken by the Council on issues raised in our qualification letter on the 2011/12 claim.

* Subject to Audit Commission approval.

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 £39,900. 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 fees.

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	High, Low, Medium			
Ensure sufficient staff are available to complete housing benefit workbooks and respond to our queries.	High	Agreed. Additional team member in place and for 2013/14 there will be one less workbook as Council Tax Benefit will no longer be part of the claim.	Done	Pauline Hull Team Leader systems and subsidy team
Student Income: provide training on the correct treatment of student grant and loan income	Medium	100% check undertaken to identify any errors and inform training programme. Training delivered.	Done	Pauline Hull Team Leader systems and subsidy team
Review housing benefit assessments completed in 2013/14 to identify impact of errors identified in 2012/13. If necessary take action to reduce the impact.	High	As well as 100% check of student income claims more testing has taken place across the range of claims.	Done	Pauline Hull Team Leader systems and subsidy team
Improve training for all temporary staff employed by the Council assessing housing benefit claims.	High	The use of temporary staff has been reduced. The only temporary staff used are those who have been used before and produce good work. They are only used when there is a specific need.	Done	Performance and Quality Team Sharon Warren Acting Benefits Manager
Review work of temporary assessors as soon as possible to ensure that they are making accurate assessments.	High	This is less likely to be an issue as fewer temporary staff are being used.	Done	Sharon Warren Acting Benefits Manager
Child Care Disregard: provide training to standardise the approach and how to record the calculation	Medium	These claims will be subject to a 100% check. Doing this will help us develop a consistent approach to these claims	May 2014	Pauline Hull Team Leader systems and subsidy team

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Housing and council tax benefits subsidy claim	High, Low, Medium			
Complete reconciliation of subsidy to software balancing report to resolve differences between the two.	Medium	The aim is to balance direct payment claims earlier to identify potential problems.	May 2014	Pauline Hull Team Leader systems and subsidy team
For the three cases where the Council was unable to recalculate the amount of subsidy complete additional work to complete the recalculation so that the Council understands how the benefit paid was calculated.	Medium	To be completed.	May 2014	Pauline Hull Team Leader systems and subsidy team

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