

## **Certification of claims and returns annual report 2013-2014**

Oxford City Council

26 February 2015

Ernst & Young LLP



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26 February 2015

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Dear Members

## **Certification of claims and returns annual report 2013-2014 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 2013-2014 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 must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify 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 the submission deadlines.

Certification work is not an audit. It involves executing prescribed tests designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2013-2014, 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 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. As appointed auditor we take no responsibility to any third party.

## Summary

Section 1 of this report outlines the results of our 2013-2014 certification work and highlights the significant issues. We checked and certified two claims and returns with a total value of £68mn. We met all submission deadlines. We issued a qualification letter for the Housing Benefit Subsidy claim. The Housing Capital Receipts Return was completed without amendment. Details of the qualification matters are included in this section.

The Council has implemented about half of the recommendations from last year's report. Overall arrangements were not found to have improved as a similar amount of errors were found to 2012-2013. Details are included in section 1. We have made five recommendations this year, set out in section 4.

Fees for certification work are summarised in section 2. The indicative fees for 2013-2014 are based on final 2011-2012 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed, and the fees for certification of housing benefit subsidy claims have been reduced by 12 per cent. This is to reflect the removal of council tax benefit from the scheme.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee on 26 February 2015.

Yours faithfully

Mick West  
Director  
for and behalf of Ernst & Young LLP  
UK

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## 1. Summary of 2013-2014 certification work

We certified two claims and returns in 2013-2014. Our main findings are shown below.

### Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£65,768,864
Limited or full review	Full
Amended	Amended – subsidy reduced by £241,090
Qualification letter	Yes
Fee – 2013-2014	£33,917
Fee – 2012-2013	£38,747

Recommendations from 2012-2013:	Findings in 2013-2014
R1 Ensure sufficient staff are available to complete housing benefit workbooks and respond to our queries	Staffing with the appropriate knowledge and experience was still an issue in 2013-2014. Council response: The Council planned to bring the team up to strength but due to ill health this was not achieved. Additional recruitment in October 2014 has brought the team up to strength.
R2 Student Income: provide training on the correct treatment of student grant and loan income	No issues noted in 2013-2014
R3 Review housing benefit assessments completed in 2013-2014 to identify impact of errors identified in 2012-2013. If necessary take action to reduce the impact	No issues noted in 2013-2014
R4 Improve training for all temporary staff employed by the Council assessing housing benefit claims	The Council sets its own assessing standards and if temporary staff do not meet them they are released. Our work found errors in 2013-2014. Training of all assessors should be continued to reduce the level of error to a minimum.
R5 Review work of temporary assessors as soon as possible to ensure that they are making accurate assessments	The work of temporary staff is checked at a rate of 100% and any that do not meet the Council's standards are released. Our work found errors in 2013-2014. Training of all assessors should be continued to reduce the level of error to a minimum.
R6 Child Care Disregard: provide training to standardise the approach and how to record the calculation	No issues noted in 2013-2014
R7 Complete reconciliation of subsidy to software balancing report to resolve differences between the two	Reconciliation of subsidy to software balancing report was still an issue in 2013-2014. Reported in Qualification Letter. See section 4. Council response: This was completed in June 2014 but did have balancing issues. Now we have more resources we have started a programme where each team member undertakes the reconciliation each month. This means that discrepancies can be

## Recommendations from 2012-2013: Findings in 2013-2014

	identified earlier, work can be done to provide explanations or corrections before the audit. It would help us if all questions regarding balancing items and analytical review could be made earlier (May 2015). This would mean that the main subsidy audit would start with these parts of the audit work already completed and we could concentrate on the workbooks.
R8 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	Additional work completed by the Council but errors still identified in our testing. Council response: The balance on these claims was of low values but we are aware of the importance of doing these recalculations successfully.

Councils run the Government's housing benefits scheme for tenants. 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+' or 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 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 in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

These are the main issues we reported:

### Benefit Software – Reconciliation of Benefit Granted to Benefit Paid

The Council uses the Academy benefit software. The software supplier provides a method for the Council to reconcile benefit granted to benefit paid. We noted a small difference between the supplier system reconciliation and the benefit paid.

### Risk Based Verification

Oxford City Council introduced Risk Based Verification (RBV) in January 2013. The RBV Policy was approved by the section 151 Officer and also Members at the City Executive Board meeting of the Council in April 2012. The RBV assessment is not automatically applied to all claims but is risk assessed in line with the approved RBV Policy. The RBV Policy has not changed or has not been refreshed since initially approved in April 2012. DWP Guidance requires the Council to review its RBV Policy annually. The Council did review this and decided to leave it unchanged, but this has not been documented and cannot be verified. Arrangements are in place for this to be reviewed before April 2015.

### Testing Errors Identified in 2013-2014

- ▶ A larger number of errors this year that resulted in additional testing. In 2013-2014 we had to complete seven lots of 40+ testing compared to six lots in 2012-2013.
- ▶ Resources provided by the Council to complete workbooks and respond to our queries was not sufficient in number
- ▶ Errors in earnings calculations
- ▶ Errors in the categorisation between HRA and Non HRA

- ▶ Errors in working tax credit
- ▶ Errors in the application of rent allowance anniversary dates

**Follow Up on 2012-2013 Findings in 2013-2014**

As a result of work completed on the Housing Benefit Subsidy claim in 2012-2013 the Department for Work and Pensions requested that further work be completed on specific areas where issues had been noted. This work was completed and reported to the DWP and the Council. The DWP were satisfied with the outcome of this work and there was no further impact on subsidy. The additional fee for this follow up work was approved by the Audit Commission. The additional fee for this was £1,859.

**Pooling of housing capital receipts**

<b>Scope of work</b>		<b>Results</b>
Value of return presented for certification		£1,776,000
Limited or full review		Full
Amended		No
Qualification letter		No
Fee – 2013-2014		£1,358
Fee – 2012-2013		£1,350
<b>Recommendations from 2012-2013:</b>		<b>Findings in 2013-2014</b>
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 then 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. 2013-2014 certification fees

From 2012-2013 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fees for 2013-2014 are based on actual certification fees for 2011-2012, reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The 2013-2014 fee for certification of housing benefit subsidy claims has been reduced from the indicative fee by a further 12% to reflect the removal of council tax benefit from the scheme.

Claim or return	2012-2013	2013-2014	2013-2014
	Actual fee £	Indicative fee £	Actual fee £
Housing and council tax benefit subsidy	38,747	33,917	33,917
Additional work in response to DWP query on benefits claim	1,859		Note1
Pooling of housing capital receipts	1,350	1,358	1,358
NNDR	1,130		
<b>Total</b>	<b>43,086</b>	<b>35,275</b>	<b>TBC</b>

Note 1 – DWP require additional work on rent allowance overpayments in response to our 2013-2014 Qualification Letter.

We will not be requesting any additional fee for our initial Housing Benefit work in 2013-2014.

The 2012-2013 benefits fee included an indicative fee of £34,370 (which covered council tax benefit) and a further fee of £4,377 for an increase in the level of testing.

### 3. Looking forward

For 2014-2015, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-2013, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-2015 is £34,100. The actual certification fee may be higher or lower if we need to undertake more or less work than in 2012-2013 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 2012-2013 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 2014-2015. Arrangements for 2015-2016 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016-2017, 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.

## 4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation Housing Benefits Subsidy Claim	Priority	Agreed action and comment	Deadline	Responsible officer
R1. Despite sample checks being completed by benefits staff throughout the year errors are still being identified. Stronger analysis needs to be completed between the type and number of errors being found, the reasons identified and how officers and members can take assurance that the situation will be improved in the future. At present there is no clear evidence of the effectiveness of these checks given the high number of errors still being detected by EY.	High	A thorough internal assessment will be completed of the effectiveness of the checks being made by the benefits team and the continued prevalence of specific types of errors. However, it should be noted that as the function is processing similar types of information, the errors are likely to be similar year on year.	30 April 2015	Pauline Hull  Benefits System and Subsidy Team Leader
R2. Year on year the same errors are being identified by EY as part of testing.	High	A sample of 40 + testing will be selected early by EY in anticipation of finding errors which have consistently been found in recent years. This will help reduce some of the pressure on council staff towards the end of the audit.	30 April 2015	Pauline Hull  Benefits System and Subsidy Team Leader
R3. Completion of workbooks by council staff needs to be improved before being passed to EY for testing.	High	Workbooks need to be properly prepared with a clear audit trail supporting the claim value for each case selected. The Benefits System and Subsidy Team Leader has acknowledged that there were specific issues around the data entry of cell numbers against the calculation lines and that the team is now better resourced to complete the necessary administration on the workbooks	30 June 2015	Pauline Hull  Benefits System and Subsidy Team Leader
R4. Reconciliation of subsidy to subsidy	Medium	The aim is to balance direct payment claims	30 June 2015	Pauline Hull

<b>Recommendation</b>				
<b>Housing Benefits Subsidy Claim</b>	<b>Priority</b>	<b>Agreed action and comment</b>	<b>Deadline</b>	<b>Responsible officer</b>
balancing report needs to be improved. Differences identified in 2012-2013 and 2013-2014		earlier to identify potential problems. The Benefits System and Subsidy Team Leader confirmed that the reconciliations have been completed and balanced for the three months from November 2014 to January 2015 and will continue to do so monthly.		Benefits System and Subsidy Team Leader
R5 Guidance requires that the Risk-based Verification (RBV) policy is reviewed annually. This was done in 2013-2014 but not documented.		The RBV policy has been reviewed in 2014-2015		Nigel Kennedy Head of Finance (section 151 officer)
R6 Continue to work on implementation of our 2012-2013 recommendations	High	Agree a plan with EY to ensure how outstanding recommendations from 2012-2013 can be implemented. The Council responses in section 1 should be noted.	30 April 2015	Pauline Hull  Benefits System and Subsidy Team Leader

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