



London Borough of Harrow

Report to the Audit Committee  
on the year ended 31 March 2012  
Certification work

Final Report

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# 1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Harrow ("the Authority") for the year ended 31 March 2012. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

## Certification deadlines

We have certified all 4 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2012. All claims and returns we reported on were certified by the original required deadline.

## Results of our claims and returns certification work

As a result of errors identified through the performance of our procedures, adjustments were made to 3 of the 4 claims/returns prior to certification. We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. We have included additional comments below the table where we issued qualification letters on the claims/returns in 2011/12:

Claims/returns	Value of claim £	Number of cells adjusted	Financial impact Increase/ (Decrease) £	Qualified in 2010/11	Qualified in 2011/12
Housing Revenue Account Subsidy ("HOU01")	72,524,408	13	5,099	NO	NO
National Non Domestic Rates ("NNDR")	47,094,605	10	310,939	-	YES
Housing and Council Tax Benefit Subsidy ("BEN01")	152,731,464	12	(22,107)	YES	YES

### Summary of qualification letters

#### 1. Housing and Council Tax Benefit Subsidy ("BEN01")

Our initial sample testing of 80 cases on this claim identified 14 errors, one of which was confirmed as isolated and amended on the subsidy claim. As a result of these, additional testing of 160 cases was undertaken, highlighting 14 further errors. As a result of prior year errors, additional testing of 120 cases highlighted 2 errors. We have included details of all errors in our qualification letter. Apart from the isolated error, the subsidy claim was not amended for these errors.

#### 2. National Non Domestic Rates Return ("LA01")

We issued a qualification letter on the LA01 return in respect of 1 point.

Our testing identified two cases where two serviced offices within a larger property were empty in a particular month per the tenancy schedules but the authority's ledger had not been amended. This will be amended retrospectively in 2012-13. The error we identified was £158.62 and will be reimbursed to the tenants in 2012-13.

See Section 3 for more details.

## Fees

Total fees charged in respect of the work performed on the 4 claims and returns (2010: 8) certified by Deloitte were £96,392 (2010: £107,832).

Section 4 of this report sets out the fees charged on each of the 4 claims and returns we certified.

## 2. Introduction

### Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2011/12 certification work. This Letter will be published on the Authority's website.

### Our responsibilities

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the audited grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

Any claims that we are asked to certify outside of the Audit Commission framework contract will be subject to a separate engagement letter between Deloitte, the Authority and any other party who will be relying on the results of our grant audit work. This engagement letter sets out the responsibilities of all parties involved in the engagement, the scope of our work and our terms of business.

### The scope of our work

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return; or
- maximise the authority's entitlement to income under it.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the certification procedures. Our aim is to deliver a high standard of service which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your cooperation and support.

### 3. Results of our claims and returns certification work

#### Claims and returns certified without adjustment or a qualification letter

We were able to certify the following claim/return without adjustment or a qualification letter:

- Teachers' Pensions ("PEN05").

#### Claims and returns certified with adjustment and without a qualification letter

We were able to certify the following return with adjustments and without a qualification letter:

HOU01 – Housing Revenue Account ("HRA") subsidy return	
<b>Adjustment details</b>	<p>The original HOU01 return was required to be submitted on 30 September 2012, the Authority met this deadline.</p> <p>A number of minor differences in property numbers were noted between the initial HOU01 return provided for testing and both the financial statements and HOU02 (a return that did not require auditor certification in 2011/12).</p> <p>Additionally the capital financing balance was understated by £1.4m in the return, at both 1 April 2011 and 31 March 2012 due to a double counting of an adjustment.</p> <p>The tests in the certification instruction were clear in their expectation for these values to be equal.</p>
<b>Deloitte response</b>	<p>We discussed the adjustment with the Authority who agreed with our assessment. The return was amended by the Authority to ensure consistency between all three data sources. The impact on the return was 0.01% on the interest rate, equating to £5,099.</p>

#### Claims and returns certified with adjustment and a qualification letter

The following claims and returns were certified with adjustments and a qualification letter:

LA01 – National non-domestic rates ("NNDR") return	
<b>Adjustment details</b>	<p>The original LA01 return was required to be submitted on 22 June 2012, the Authority met this deadline.</p> <p>Similar to the previous year the rates supplement collected in relation to Cross Rail had been included in the return. It is not appropriate for the Cross Rail supplement (of £27,593) to be included within the return as, although it is collected by the Authority, it is not part of NNDR reporting.</p> <p>The adjustment had no impact on the overall gross amount or contributions to the NNDR pool.</p>
<b>Qualification details</b>	<p>Our testing identified two cases where two serviced offices within a larger property were empty in a particular month per the tenancy schedules but the authority's ledger had not been amended. This will be amended for retrospectively in 2012-13. The error we identified was £158.62 and will be reimbursed to the tenants in 2012-13.</p>
<b>Deloitte response</b>	<p>We discussed the Cross Rail supplement adjustment with the Authority who agreed with our assessment. The Authority chose to amend the return to reflect the £27,593 adjustment.</p> <p>We discussed the empty property cases with the Authority who agreed with our findings. The Authority chose not to amend the return and will instead reimburse the tenants in 2012-13.</p>

### 3. Results of our claims and returns certification work (continued)

#### Claims and returns certified with adjustment and a qualification letter (continued)

The Housing and council tax benefit subsidy ("BEN01") was certified with 1 amendment and a qualification letter.

In 2011/12 we identified errors on 30 cases, 1 of which was amended (2010/11: 8 cases). We were able to group similar errors types together across the 30 cases to give a total of 2 different error types: incorrectly classified expenditure and overpaid benefit. Both of these errors resulted in an overstatement of an individual's benefit entitlement or subsidy or both.

Where errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing to ascertain whether the errors are isolated.

We undertook additional work on the overstated error types and concluded that one was wholly isolated – this was amended. We were not able to conclude that the other errors were isolated and hence we could not conclude that the claim was fairly stated. Accordingly, we were required to include in our qualification letter extrapolation calculations for the remaining unadjusted errors (all of the overpaid or overstated errors where we did not test 100% of the population).

Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 subsidy claim that would have allowed us to conclude that it was fairly stated. We have set out a summary of our findings in the table below:

#### BEN01 – Housing and council tax benefit subsidy

<b>Qualification details</b>	<p><b>Council tax benefit (cell 142)</b>  <b>Total expenditure £23,520,303</b></p> <p>Our testing of council tax benefits identified 11 errors, 2 from our initial testing and 9 from the additional 40+ testing required by the approach.</p> <p>9 of these cases had no financial impact on the claim and 1 further case related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose.</p> <p>The final error, which was not adjusted for related to incorrectly classified expenditure.</p> <p><i>Conclusion</i></p> <p>The un-amended error we determined was not isolated, so we included these within our qualification letter and extrapolation.</p>
	<p><b>Rent rebates (Tenants of HRA properties – cell 055)</b>  <b>Total expenditure £16,779,669</b></p> <p>Our testing of rent rebates (tenants of HRA properties) ("rent rebates") identified 7 errors.</p> <p>1 of these cases had no financial impact on the claim and 5 further cases related to underpaid benefit as a result of miscalculating the claimant's weekly income. None of these errors impact eligibility for subsidy and as such were not classified as an error for subsidy purpose.</p> <p>The final error, which was not adjusted for related to miscalculating the claimant's weekly income.</p> <p><i>Conclusion</i></p> <p>The un-amended errors we determined was not isolated, so we included this within our qualification letter.</p>

### 3. Results of our claims and returns certification work (continued)

BEN01 – Housing and council tax benefit subsidy	
<b>Qualification details (continued)</b>	<p><b>Rent allowances (cell 094)</b>  <b>Total expenditure £113,723,396</b></p> <p>Our testing of rent allowances ("RA") identified 11 errors – all but 2 were in relation to income assessment.</p> <p>1 error was able to be isolated and the claim form was amended with a net decrease to the value of the claim of £22,107.</p> <p>6 of these cases had no financial impact on the claim as they do not impact eligibility for subsidy and as such were not classified as an error for subsidy purpose.</p> <p>The 3 errors that were not adjusted were each the result of a different reason: miscalculation of the claimants weekly income; understating the number of joint tenants for a property; and the incorrect time frame to claim a pension.</p> <p>As a result of the testing undertaken in relation to prior year income miscalculation errors, further testing was only required in relation to joint tenants and pension time frames.</p> <p><i>Conclusion</i></p> <p>Aside from 1 error, the other 3 errors impacting subsidy we were not able to isolate, so we included those in our qualification letter.</p>

BEN01 – Housing and council tax benefit subsidy	
<b>Recommendation</b>	<p>Since certifying the claim form we have provided management with a summary of the errors found to allow early planning for next year's testing.</p> <p>We do not have any specific control recommendations as a result of the work performed for the 2011/12 claim.</p> <p>It was evident from our testing of prior year errors that the controls in these areas have improved (only 2 errors noted from a sample test of 120 cases). However it is clear from our other testing that there were some systematic errors, the reasons for which need to be understood by management to further improve the control environment. We do however acknowledge that management attention has been drawn to future changes to the benefits systems which was potentially a cause of the error rate this year.</p>
<b>Deloitte response</b>	<p>Given the number of transactions and the volume of manual processing required for the benefit calculation, we understand that it is not unusual for the BEN01 subsidy claim to be qualified. Our experience with this on other Local Authorities indicates that the types of errors we have identified are similar to those identified at other Local Authorities.</p>

## 4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2012 is now complete and the table below summarises the results of this work and our billings by claims and returns.

Under the Audit Commission framework agreement we bill our grant work on a time incurred basis. Significant differences on fee when compared to 2011 are explained beneath the table.

Certification instruction	Within Audit Commission framework	Claim/ return	2012 value of claim (£)	2012 results of audit work	2012 audit fee (£)	2011 audit fee (£)
BEN01	Yes	Housing and council tax benefits subsidy	152,731,464	Amended and qualified	76,206	50,490
HOU01	Yes	HRA subsidy	7,252,408	Amended	5,937	5,420
LA01	Yes	National non-domestic rate return	47,094,605	Amended and qualified	7,539	9,705
PEN05	Yes	Teachers' pension return	10,977,888	Satisfactory	3,581	4,415
General/admin					3,131	11,857
No longer requiring certification in 2011/12*					-	25,945
<b>TOTAL</b>					<b>96,392</b>	<b>107,832</b>

\* There was no requirement to certify ECY02, HOU02 and HOU21 for year ended 31 March 2012. CRB06 fell below the certification threshold for year ended 31 March 2012.



## 4. Certification information (continued)

We have kept the finance team updated on costs on a regular basis. The table below explains variances on fees between 2011 and 2012 which are over £2,000.

Certificate instruction	Variance (£) Increase/(decrease)	Reason for variance
BEN01	25,716	30 errors were identified in the course of our work this year, in comparison to 8 in the prior year. Additionally errors found in our current year testing were different to those noted in the prior year and this increased the amount of additional cases that required testing in line with the Certification Instructions.
LA01	(2,166)	The scope of the testing was consistent with the previous year, however explanations and information sought from management was effectively and efficiently supplied.
General/admin	(8,725)	The number of grants we are required to certify has decreased and as such the related administration time has also reduced.

## 5. Responsibility statement

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our certification procedures and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report sets out those matters of interest which came to our attention during the certification procedures. Our work was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

*Deloitte LLP*

**Deloitte LLP**

Chartered Accountants

St Albans

21 January 2013

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