



London Borough of Harrow

Report to the Audit Committee  
on the year ended 31 March 2013  
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 2013. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

<b>Certification deadlines</b>	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 2013. All claims and returns we reported on were certified by the original required deadline.
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<b>Results of our claims and returns certification work</b>	<p>As a result of errors identified through the performance of our procedures, adjustments were made to 2 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 a qualification letter in 2012/13:</p> <table border="1"> <thead> <tr> <th>Claims/returns</th> <th>Value of claim £</th> <th>Number of cells adjusted</th> <th>Financial impact Increase/ (Decrease) £</th> <th>Qualified in 2011/12</th> <th>Qualified in 2012/13</th> </tr> </thead> <tbody> <tr> <td>Pooling of Housing Capital Receipts ("CFB06")</td> <td>£562,062</td> <td>4</td> <td>£99</td> <td>N/A</td> <td>NO</td> </tr> <tr> <td>National Non Domestic Rates ("NNDR")</td> <td>£49,287,921</td> <td>-</td> <td>-</td> <td>YES</td> <td>NO</td> </tr> <tr> <td>Housing and Council Tax Benefit Subsidy ("BEN01")</td> <td>£157,646,227</td> <td>-</td> <td>-</td> <td>YES</td> <td>YES</td> </tr> <tr> <td>Teachers Pensions Return ("PEN05")</td> <td>£44,212,513</td> <td>2</td> <td>-</td> <td>NO</td> <td>NO</td> </tr> </tbody> </table> <p><b>Summary of qualification letters</b>  <b><i>Housing and Council Tax Benefit Subsidy ("BEN01")</i></b>            Our initial sample testing of 80 cases on this claim identified no errors. However, as a result of prior year errors, additional testing of 120 cases highlighted 15 errors. We have included details of all errors in our qualification letter. The subsidy claim was not amended for these errors.            See Section 3 for more details.</p>	Claims/returns	Value of claim £	Number of cells adjusted	Financial impact Increase/ (Decrease) £	Qualified in 2011/12	Qualified in 2012/13	Pooling of Housing Capital Receipts ("CFB06")	£562,062	4	£99	N/A	NO	National Non Domestic Rates ("NNDR")	£49,287,921	-	-	YES	NO	Housing and Council Tax Benefit Subsidy ("BEN01")	£157,646,227	-	-	YES	YES	Teachers Pensions Return ("PEN05")	£44,212,513	2	-	NO	NO
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Teachers Pensions Return ("PEN05")	£44,212,513	2	-	NO	NO																										

<b>Fees</b>	<p>Total fees charged in respect of the work performed on the 4 claims and returns (2012: 4) certified by Deloitte LLP were £42,700 (2012: £96,392).</p> <p>Section 4 of this report sets out the fees charged on each of the 4 claims and returns we certified.</p>
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## 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 2012/13 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:

- National Non Domestic Rates (“NNDR”).

#### 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:

<b>CFB06 - Pooling of Housing Capital Receipts</b>	
<b>Adjustment details</b>	The original CFB06 return was required to be submitted on 12 July 2013, the Authority met this deadline. In the initial return it was noted that a disposal was recognised in the wrong quarterly return which impacted the resulting interest calculation.
<b>Deloitte response</b>	We discussed the adjustment with the Authority who agreed with our assessment. The return was amended by the Authority to ensure the interest was correctly calculated. The impact on the return was to increase interest cost by £98.

<b>PEN05 – Teachers Pension Return</b>	
<b>Adjustment details</b>	The original PEN05 return provided to us before the 30 June 2013 deadline. The following was noted in relation to the return: <ul style="list-style-type: none"><li>• Form EOYCa was presented instead of EOYCd as required by the certification instruction; and</li><li>• One teacher was initially included in the incorrect contribution tier.</li></ul>
<b>Deloitte response</b>	We discussed both amendments with the Authority who agreed with our assessment. The correct return was issued by the Authority including moving the teacher into the correct contribution tier. There was no financial impact on the return.

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

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

The Housing and council tax benefit subsidy (“BEN01”) was certified with a qualification letter but was not subject to amendment.

In 2012/13 we identified 17 errors on 15 cases (2011/12: 8 cases). We were able to group similar errors types together across the 15 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.

No errors were identified in our initial testing and hence in 2012/13 we were not are required to undertake prescriptive additional testing.

As a result of errors noted in the prior year, additional testing of 120 cases was undertaken by the Authority and reviewed by us. We were not able to conclude that the errors identified in this work 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:

<b>BEN01 – Housing and council tax benefit subsidy</b>	
<b>Qualification details</b>	<p><b>Council tax benefit (cell 142)</b>  <b>Total expenditure £23,837,058</b></p> <p>As a result of the testing undertaken in relation to prior year errors, 7 errors were identified, on 5 cases.</p> <p>1 of these cases had no financial impact on the claim and 3 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 remaining 3 errors, which were not adjusted for, related to overpaid benefit as a result of miscalculating the claimants weekly income.</p> <p><i>Conclusion</i></p> <p>We determined that the un-amended errors were not isolated, so included these within our qualification letter and extrapolation.</p>
	<p><b>Rent rebates (Tenants of HRA properties – cell 055)</b>  <b>Total expenditure £17,744,468</b></p> <p>As a result of the testing undertaken in relation to prior year errors, 3 errors were identified.</p> <p>2 of these 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 remaining error, which was not adjusted for, related to overpaid benefit as a result of miscalculating the claimants weekly income.</p> <p><i>Conclusion</i></p> <p>We determined that the un-amended errors were not isolated, so included these within our qualification letter and extrapolation.</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></p> <p><b>Total expenditure £118,787,216</b></p> <p>As a result of the testing undertaken in relation to prior year errors, 7 errors were identified. The errors were not adjusted and were the result of miscalculation of the claimants weekly income.</p> <p>2 of these 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 remaining 5 errors, which were not adjusted for, related to overpaid benefit as a result of miscalculating the claimants weekly income.</p> <p><i>Conclusion</i></p> <p>We determined that the un-amended errors were not isolated, so included these within our qualification letter and extrapolation.</p>

Following the replacement of the national Council Tax Benefit scheme with a local Council Tax Reduction policy, the certification of the Housing Benefit Subsidy grant in 2013/14 will no longer cover expenditure on payments relating to Council Tax. Members should consider how they are gaining assurance that the Council Tax Reduction scheme is being administered in line with the agreed policy.

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.

We do not have any specific control recommendations as a result of the work performed for the 2012/13 claim.

## 4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2013 is now complete and the table below summarises the results of this work and our fees by claims and returns.

From 2012/13 onwards, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work. This is based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40% reduction. This accounts for the variation in fees noted below on a year on year basis. These savings are generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imburement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

Certification instruction	Within Audit Commission framework	Claim/ return	2013 value of claim (£)	2013 results of certification work	2012 audit fee (£)	2013 audit fee (£)
BEN01	Yes	Housing and council tax benefits subsidy	157,646,227	Qualified	76,206	30,944
CFB06 *	Yes	Housing Capital Receipts	562,062	Amended	-	3,728
LA01	Yes	National non-domestic rate return	49,287,921	Satisfactory	7,539	5,827
PEN05	Yes	Teachers' pension return	44,212,513	Amended	3,581	2,651
General/admin					3,131	-
No longer requiring certification in 2012/13*					5,937	-
<b>TOTAL</b>					<b>96,392</b>	<b>42,700</b>

\* There was no requirement to certify HOU01 for year ended 31 March 2013. In 2011/12 CFB06 did not require certification as it fell below the threshold.



# 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

8 January 2014

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