

London Borough of Harrow

Report to the Audit Committee
on the year ended 31 March
2011 Certification work

Final Report

Contents

1.	Executive summary	1
2.	Introduction	2
3.	Results of our claims and returns certification work	3
4.	Certification information	7
5.	Responsibility statement	8

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 2011. 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 8 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2011. All claims and returns we reported on were certified by the original required deadline.
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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 8 claims/returns prior to certification. A number of these adjustments related to the fact that incorrect information was kept on the system. 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 2010/11:
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Claims/returns	Value of claim	Number of cells adjusted	Financial impact Increase/ (Decrease)£	Qualified in 2010/11	Qualified in 2009/10
Housing Finance Base Data return ("HOU02")	N/A	10	N/A	YES	NO
National Non Domestic Rates ("NNDR")	£43,898,755	2	£Nil	NO	NO
Housing and Council Tax Benefit Subsidy ("BEN01")	£145,050,837	8	£2,000	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 errors on two cases. One error was confirmed as isolated and amended on the subsidy claim. As a result of prior year errors, additional testing of 160 cases highlighted 6 errors. We have included details of the 7 errors in our qualification letter. The subsidy claim was not amended for these errors. We have included details of all 13 cases in our qualification letter.

2. Housing Finance Base Data Return ("HOU02")

We issued a qualification letter on the HOU02 return in respect of 1 point:

The Authority was unable to provide evidence of floor space measurement for some of the properties included in our sample which were used as a basis to categorise the properties on the return.

See Section 3 for more details.

Fees	Total fees charged in respect of the work performed on the 8 claims and returns (2010: 8) certified by Deloitte were £107,832 (2010: £110,625). Section 4 of this report sets out the fees charged on each of the 8 claims and returns we certified; and summarises their value.
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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 2010/11 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 5 claims and returns without adjustment or a qualification letter:

- Pooling of housing capital receipts return ("CFB06").
- Disabled facilities return ("HOU21").
- Housing Revenue Subsidy ("HOU01").
- Teachers' Pensions ("PEN05").
- Sure Start, Early years, and Childcare grant and Aiming High for Disabled Children ("EYC02").

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:

LA01 – National non-domestic rates ("NNDR") return

Adjustment details	<p>The original LA01 return was required to be submitted on 24 June 2011, the Authority met this deadline. In July 2011 Northgate issued additional guidance relating to a Cross Rail business rates supplement that had been included in the return.</p> <p>It is not appropriate for the Cross Rail supplement 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 of £23,574 to remove the Cross Rail supplement impacted on 2 lines within the return:</p> <ul style="list-style-type: none"> i) gross rates payable in respect of 2010/11, and ii) small business rate relief in respect of 2010/11. <p>The adjustment had no impact on the overall gross amount or contributions to the NNDR pool.</p>
Deloitte response	<p>We discussed the adjustment with the Authority who agreed with our assessment. The Authority updated its Northgate software to account for the adjustment and we agreed this to correspondence from Northgate.</p> <p>The Authority chose to amend the return to reflect the £23,574 adjustment. In our report on the return, we reflected the fact that the return had been amended but that no numerical amendment was made to the total amount of business rates payable into the pool.</p>

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

Claims and returns certified with adjustment and a qualification letter

The following claim and return were certified with adjustments and a qualification letter:

HOU02 – Housing finance base data return	
Adjustment details	<p>Our procedures for the certification of the HOU02 return identified the following errors:</p> <ol style="list-style-type: none"> 1. Presentational error – Our testing identified incorrect data being entered in a number of cells on the return. 2. Calculation errors – Our testing identified a few of Authority's calculations in the cells on the return were not in line with the HOU 02 certification instructions. 3. Classification errors – On a number of cells within the return we are required to check that the classification of the housing stock had been correctly stated. Our testing identified that for 2 out of 4 properties included in our sample, the recorded floor space was incorrect, and as a result the property was included in the wrong category on the return. <p>Qualification letter summary</p> <p>We issued a qualification letter with respect to point 3 above, where properties were included in the wrong category on the return and where the Authority was unable to demonstrate an audit trail that was in accordance with DCLG guidance.</p>
Management response	<p>Although the claim was qualified on the basis noted above the authority subsequently tested a larger sample size of 47 from which it was noted 2 would have changed classification. The authority undertook this additional work because the original sample was deemed too small to be reliable and there was a concern that, had it been used by CLG to determine the final HRA settlement in 2012-13, it would have increased the figure to be paid by approximately £6m. Based on the results of this larger sample, the CLG has accepted that the original sample data would not be used to inform the Settlement and hence reduced it in line with the original expectation.</p>
Deloitte response	<p>We agreed the errors with the Authority and for 1 and 2 above; the Authority had made appropriate changes to the return. We raised a qualification for error 3, and in our report on the return, we reflected the fact that the return had been amended and that a qualification letter had been issued. We recommend that the Authority: updates its records on property floor measurements (which is the basis for distinguishing the properties into various categories on the return); and agrees all the data on the return is evidenced to the database before uploading it on the DCLG website.</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 2 amendments and a qualification letter. In 2010/11 we identified errors on 8 cases, 1 of which was amended (2009/10: 17 cases). We were able to group similar errors types together across the 8 cases to give a total of 2 different error types: income miscalculation and expenditure classification. 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 7 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

Qualification details	
	<p>Rent rebates (Tenants of HRA properties – cell 066) Total expenditure £76,691</p> <p>Our testing of rent rebates (tenants of HRA properties) ("rent rebates") identified 4 errors. 1 of the errors was amended as it was possible using Northgate reports to isolate the case and confirm that no other incidences remained unadjusted in the claim form.</p> <p>The 3 errors that were not adjusted were as a result of expenditure misclassification.</p> <p>As a result of the testing being undertaken in relation to prior year errors, no further testing was required.</p> <p><i>Conclusion</i></p> <p>The un-amended errors we determined were not isolated, so we included these within our qualification letter.</p>
	<p>Rent rebates (Tenants of non HRA properties – cell 011) Total expenditure £757,487</p> <p>Our testing of rent rebates NHRA (tenants of non HRA properties) identified errors on 3 cases. The errors all related to income miscalculation.</p> <p>As a result of the testing being undertaken in relation to prior year errors, no further testing was required.</p> <p><i>Conclusion</i></p> <p>We were not able to isolate the errors, so we included them in our qualification letter.</p>
	<p>Rent allowances (cell 094) Total expenditure £107,840,892</p> <p>Our testing of rent allowances ("RA") identified 1 error in relation to income assessment.</p> <p><i>Conclusion</i></p> <p>We were not able to isolate the error, so we included it in our qualification letter.</p>

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

BEN01 – Housing and council tax benefit subsidy	
Recommendations	<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. We have also raised 2 control recommendations which we summarise below:</p> <ul style="list-style-type: none"> • The 'BENCHK106' script should be run at the year end and entries arising from this report included in the claim form submitted for auditor certification. The script is designed to identify cases where an item has been mis-coded to claimant rather than authority error as Northgate is not able to do this automatically. The claim form for 2010/11 was amended for £2,354 under-claim before being certified • As noted above one error arising from testing of cell 066 was able to be isolated and the claim form amended. A 'Mass Calc' report is required to be run by Northgate as a quirk in the system means that errors arise in the handling of deductions affecting claims that are already closed. The benefits team sample test items flagged by these reports, however not all were tested and a transfer of £13,777 was made between the cells before the claim was certified. 'Errors' arising from not reviewing all items on the Mass Calc report can be individually large and hence should all be reviewed.
Deloitte response	<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> <p>As a result of the work performed for the 2009/10 claim, the control environment was improved significantly in the latter part of the 2010/11 year.</p>

4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2011 is now complete and the table below summarises the results of this work and our billings by claims and returns.

Certification instruction	Within Audit Commission framework	Claim/ return	2011 value of claim (£)	2011 results of audit work	2011 audit fee (£)	2010 audit fee (£)
BEN01	YES	Housing and council tax benefits subsidy	145,050,837	Qualified	50,490	49,560
CFB06	YES	Pooling of housing capital receipts	3,120,921	Satisfactory	5,460	4,425
EYC02	YES	Sure start, early years and childcare	12,637,384	Satisfactory	5,970	6,195
EYC02 (2009)	YES	Sure start, early years and childcare	n/a	n/a	0	1,770
HOU01	YES	HRA subsidy	-11,304,798	Satisfactory	5,420	5,310
HOU02	YES	HRA subsidy base data return	N/A	Qualified	7,505	7,965
LA01	YES	National non-domestic rate return	299,608,720	Amended	9,705	9,735
PEN05	YES	Teachers' pension return	18,903,302	Satisfactory	4,415	4,425
HOU21	YES	Disabled facilities	1,623,000	Satisfactory	7,010	7,080
General/admin					11,857	14,160
TOTAL					107,832	110,625

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 February 2012

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