

London Borough of Hillingdon

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

Final Report

Contents

1.	Executive summary	1
2.	Introduction	3
3.	Results of our claims and returns certification work	4
4.	Certification information	7
5.	Responsibility statement	9

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 Hillingdon ("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 6 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2012. All of the claims and returns we reported on were certified by the required deadline.
--------------------------------	--

Results of our claims and returns certification work	<p>As a result of errors identified through the performance of our procedures, adjustments were required to 3 of the 6 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. It should be noted that adjustments to cells do not necessarily result in a net impact on the claim or return as they may net off with other adjustments or be memoranda items.</p> <p>We have included additional comments below the table where we issued qualification letters on the claims/returns in 2011/12:</p>
---	--

Claims/returns	Value of claim (£)	Number of cells adjusted	Financial impact Increase/ (Decrease) (£)	Qualified in 2011/12	Qualified in 2010/11
Pooling of housing capital receipts ("CFB06")	4,073,509	0	0	NO	NO
National non domestic rates return ("LA01")	324,450,433	0	0	NO	NO
HRA subsidy return ("HOU01")	(15,392,682)	4	0	NO	YES
Teachers' pension return ("PEN05")	14,465,179	4	0	NO	YES
Housing and council tax benefit scheme ("BEN01")	163,023,581	0	0	YES	YES
Single Programme ("RG31")	1,267,753	4	0	YES	n/a

Summary of qualification letters

Housing and council tax benefit scheme ("BEN01")

Our initial sample testing of 80 cases identified errors on 10 cases. Further testing of 320 cases relating to these errors identified errors on another 8 cases. Additionally, in line with Audit Commission methodology, we performed testing of 344 cases in areas with a past history of error. This testing identified 35 errors. We included details of all errors in our qualification letter to the DWP.

Whilst outside the scope of our reporting to the DWP, discussions with the Housing Benefits team identified that the cumulative results of our work indicate that the Authority may have under claimed subsidy by approximately £15k.

Single Programme ("RG31")

We issued a qualification letter on the RG31 return in respect of 3 points:

- The statement of grant expenditure included (with the permission of the Greater London Authority ("GLA"), the funding body) expenditure incurred in 2012/13;
- The authority revised the form (at the request of the GLA) reclassifying expenditure that was deemed Revenue Expenditure Funded from Capital under Statute from capital to revenue; and
- We were unable to test whether expenditure sampled was capital or revenue.

1. Executive summary (continued)

Fees

Total fees charged in respect of the work performed on the 6 claims and returns (2011: 11) certified by Deloitte were £115,399 (2011: £201,583).

Section 4 of this report sets out the fees charged on each of the 6 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 2 claims/returns without adjustment or a qualification letter:

- Pooling of housing capital receipts return ("CFB06").
- National non domestic rates return ("LA01")

Claims and returns certified with adjustment and without a qualification letter

We were able to certify the following 2 claims/returns with adjustments and without a qualification letter:

HOU01 - HRA subsidy return	
Adjustment details	<p>Our procedures for the certification of the HOU01 return identified errors in relation to 4 cell calculations.</p> <p>These 4 cells were all impacted by an error made in the calculation of the Authority's capital financing requirement for the year.</p> <p>Our testing identified an adjustment to decrease all 4 cells by £473,630. This was due to adjustments to the capital financing requirement during the year that had not been included in the calculation by the Authority.</p> <p>These errors could have impacted the calculation of the Authority's consolidated rate of interest. However, the adjustment was not in fact of sufficient magnitude to change the rate. Therefore, the amendments did not impact the overall subsidy entitlement on the claim/return.</p>
Deloitte response	<p>We discussed the errors with the Authority and the Authority chose to adjust the claim/return for the errors noted above. In our return submitted to the Department of Communities and Local Government we reflected the fact that the claim/return had been amended.</p>

PEN05 - Teachers' pension return	
Adjustment details	<p>As part of our testing we identified that a current year refund of £10,682.37 (in relation to the erroneous inclusion of contributions as a result of the payment of a double salary to teachers) was included in previous year refunds.</p> <p>This amount was therefore moved to the correct line in the return. As the refund was split between teachers' contributions and employer's contributions this impacted 4 different cells on the return.</p> <p>The amendments did not impact the overall contributions paid detailed on the claim/return.</p>
Deloitte response	<p>We discussed the errors with the Authority and the Authority chose to adjust the claim/return to for the errors noted above. In our return submitted to Teachers' Pensions we reflected the fact that the claim/return had been amended.</p>

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

Claims and returns certified with adjustment and a qualification letter

There is no concept of materiality in the certification of the claims/returns. The following claim was certified with adjustment and with a qualification letter:

RG31 - Single Programme (Domestic insulation programme)	
Adjustment and qualification details	<p>The Authority was asked by the GLA to revisit their capital and revenue split due to an original capital overspend of £150,736.01.</p> <p>The Authority amended the claim, with the result that the split of capital and revenue was in line with the grant offered. There was no change in the total expenditure claimed.</p> <p>£150,736.01 of the costs of Home Energy Advisors were reclassified from capital to revenue on the basis that this expenditure was REFCUS (Revenue Expenditure Funded from Capital under Statute) in nature (i.e. items that are funded from capital resources that under IFRS and normal accounting practice would be charged to Surplus or Deficit on the Provision of Services as revenue expenditure) and therefore only the amount designated as capital by the funding body as such should be considered capital.</p> <p>We were not able to map the individual supplier invoices to capital or revenue spend in the claim (but could verify that it was eligible expenditure in line with the grant).</p> <p>Therefore we were able to certify the claim subject to this qualification regarding capital or revenue split.</p> <p>We also noted the fact that the claim included (with the permission of the GLA, the funding body) expenditure incurred in 2012/13.</p>
Deloitte response	<p>We agreed the facts as set out above with the Authority. In our return submitted to the GLA we reflected the fact that the claim had been amended and that a qualification letter had been issued with respect to the points described above.</p> <p>We have discussed the qualification with the Housing Finance team so that they are aware of the issue for any future claims</p>

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

Claim/return certified without adjustment but with a qualification letter

The Housing and council tax benefit scheme (“BEN01”) was certified without adjustment but with a qualification letter:

BEN01 - Housing and council tax benefit scheme	
Qualification details	<p>In 2011/12 we identified errors on 10 cases (2010/11: 13 cases) in our initial testing of 80 cases. 2 of these cases were deemed to be isolated and so no further testing was required.</p> <p>Where overstatement 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 or require inclusion in the qualification letter.</p> <p>From the further testing performed (on the remaining 8 error cases), it was concluded that 3 of the original errors were isolated, with the remaining 5 error cases deemed not to be isolated. These 8 overstated error types were reported within our 2011/12 qualification letter.</p> <p>We were required to include in our qualification letter extrapolation calculations for 4 of the errors (all of the overpaid or overstated errors where we did not test 100% of the population), which compared to 10 extrapolation tables in 2010/11.</p> <p>We are also required to undertake focused testing on areas where we identified errors in the prior year (that were not deemed isolated). This resulted in us testing additional samples in 9 specific areas and identifying 35 errors. We were required to include in our qualification letter 9 extrapolation calculations for these errors (all were overpaid or overstated errors where we did not test 100% of the population).</p> <p>In 2012 Internal Audit has been involved in performing some elements of the certification work (with Deloitte reperforming a sample of this to ensure that we could place reliance on this work).</p> <p>We held a workshop for Internal Audit to brief them on the approach to the work and regularly liaised with them as the work progressed.</p> <p>The Authority has not updated the 2011/12 claim form for any of the errors we identified and we have included all error types within our qualification letter.</p> <p>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 return that would have allowed us to conclude that it was fairly stated.</p> <p>Discussions with the Authority Housing Benefits team identified that the results of our work indicate the Authority may have under claimed subsidy by approximately £15k.</p>
Deloitte response	<p>Given the number of transactions and the volume of manual processing required for the benefit calculation, it is not unusual for the BEN01 return to be qualified. Our experience with this return on other Local Authorities indicates that the types of errors we have identified at Hillingdon are similar to those identified at other Local Authorities; albeit the volume of errors identified at Hillingdon in 2011/12 appears to be greater than at other Local Authorities.</p> <p>In our return submitted to the Department of Work and Pensions we reflected the fact that the subsidy claim had not been amended and that a qualification letter had been issued.</p>

4. Certification information

Our work on the 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 return.

Under the Audit Commission framework agreement we bill our 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 scheme	163,023,581	Qualified	61,776	118,511
CFB06	Yes	Pooling of housing capital receipts	4,073,509	Satisfactory	7,649	3,770
HOU01	Yes	HRA subsidy	(15,392,682)	Amended	8,719	8,560
LA01	Yes	National non-domestic rate return	324,450,433	Satisfactory	10,606	10,450
PEN05	Yes	Teachers' pension return	14,465,179	Amended	12,289	10,450
RG31	Yes	Single Programme	1,267,753	Qualified	14,360	N/A
EYC02*	Yes	Sure start, early years and childcare	Not applicable in 2011/12		0	6,132
HOU02*	Yes	HRA subsidy base data return	Not applicable in 2011/12		0	19,823
HOU21*	Yes	Disabled facilities	Not applicable in 2011/12		0	4,255
Gateway	No	Single programme LDA - Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2)	Not applicable in 2011/12		0	6,544
Gateway (extension)	No	As above for Gateway	Not applicable in 2011/12		0	6,544
Gateway (final claim)	No	As above for Gateway	Not applicable in 2011/12		0	6,544
TOTAL					115,699	201,583

*There was no requirement to certify EYC02, HOU02 and HOU21 for year ended 31 March 2012.

4. Certification information (continued)

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

Certification instruction	Variance (£)	Reason for variance
BEN01	(56,735)	<p>In 2012 Internal Audit has been involved in performing some elements of the certification work (with Deloitte reperforming a sample of this to ensure that we could place reliance on this work).</p> <p>We held a workshop for Internal Audit to brief them on the approach to the work and regularly liaised with them as the work progressed.</p>
CFB06	3,879	<p>In 2011 we were able to take reliance on controls and did not undertake detailed testing on this grant.</p> <p>In 2012, due to the Audit Commission guidance, we were not able to place reliance on controls, and therefore were required to undertake detailed testing on this grant.</p> <p>This was due to the fact that we had not carried out detailed controls testing in the preceding 2 years.</p>
RG31	14,360	<p>RG31 was a one-off claim on 2011/12 and so was not required in 2010/11.</p>

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

31 January 2013

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

© 2013 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu Limited