

London Borough of Hillingdon

**Report to the Audit Committee
on the 2010 Grant Certifications**

Final Report

Issued 14 February 2011

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Executive summary

We have pleasure in setting out in this document our key findings from our grant audit work of the London Borough of Hillingdon (“the Council”) for the year ended 31 March 2010. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

Certification deadlines	All of the grants we reported on for the year ended 31 March 2010 were certified by the required deadline.
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Amended/qualified grant claims	<p>As a result of errors identified through the performance of our procedures, adjustments were made to four grant claims prior to certification; these adjustments all related to compilation errors on the claim forms. Only two of these adjustments were greater than £10,000 and none of the adjustments resulted in a change to the overall entitlement of the claim.</p> <p>In addition to the adjustments noted above, a qualification letter was issued in respect of the housing and council tax benefit scheme grant.</p> <p>The Council also requested that we undertake procedures on a grant claim which was outside of our Audit Commission framework contract. We completed the required procedures and issued a modified audit report on this grant.</p> <p>See Section 2 for more details.</p>
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Certification information	Total fees charged in respect of the work performed on the 13 grants (2009: 12 grants) certified by Deloitte were £155,364 (2009: £136,768). Section 3 of this report sets out the fees charged on each of the 13 grants we certified; and summarises the value of the grant and the results of our audit work.
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1. Introduction

Purpose of this report

This letter is addressed to the Audit Committee of the Council and is intended to communicate key issues arising from our 2009/10 grant certification work. This Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council'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 Council 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.

2. Amended/qualified grant claims

Amended claims under the Audit Commission framework contract

As a result of errors identified through the performance of procedures agreed between the Audit Commission and the grant paying body, adjustments were made to four grant claims prior to certification. Although two of the adjustments were greater than £10,000, the errors related to form compilation and the errors did not result in a change to the overall entitlement claimed by the Council.

LA01 – National non-domestic rates (“NNDR”) return

<p>Adjustment details</p>	<p>During the audit of the main Council accounts, one test undertaken was to agree the NNDR arrears debtor of £9.2m shown on the grant claim form to the NNDR arrears debtor shown in the accounts.</p> <p>At the date of our grants audit the accounts showed a NNDR arrears debtor of £12.8m which had been audited as part of the main Council accounts audit with no issues noted. We investigated the difference and this indicated that the accounts were correctly stated and that £3.6m of NNDR over payments had been incorrectly deducted from the NNDR arrears debtor on the NNDR grant claim.</p> <p>The NNDR arrears debtor on the grant claim form does not link into any other figures on the grant claim form or affect the amount of grant the Council is able to claim; and the instructions we receive from the Audit Commission do not require us to undertake any work on the NNDR arrears debtor as part of our grant audit. This means that we would have been able to issue an unqualified report on the NNDR grant claim form regardless as to whether the Council amended the NNDR arrears debtor or not.</p>
<p>Deloitte response</p>	<p>We discussed the error with the Council and the Council chose to amend the grant claim form to reflect the £12.8m NNDR arrears debtor shown in its accounts. In our return submitted to the Audit Commission we reflected the fact that the grant claim form had been amended but that no numerical amendment was made to the overall entitlement on the grant claim form.</p>

PEN05 – Teachers’ pension return (“TPR”)

<p>Adjustment details</p>	<p>Our procedures on the audit of the TPR identified compilation errors on the initial grant claim form that was provided for audit: the original grant claim form included a transposition error and Part C of the grant claim form had not been completed by the Council. Neither of these errors impact on the overall grant entitlement.</p>
<p>Deloitte response</p>	<p>We discussed the errors with the Council and the Council chose to amend the grant claim form to reflect the errors noted in the audit. In our return submitted to the Audit Commission we reflected the fact that the grant claim form had been amended but that no numerical amendment was made to the overall entitlement on the grant claim form.</p>

2. Amended/qualified grant claims (continued)

RG31 – Workmates – West London working personal advice and outreach (“Hillingdon Workmates”); and

RG31 – Hillingdon LIDO/ Hillingdon sports & leisure centre (“Hillingdon LIDO”)

<p>Adjustment details</p>	<p>Our procedures on the Hillingdon Workmates statement of grant expenditure (“SGE”) identified that income of £40,000 that had been received by the Council before the Council had signed the SGE, had incorrectly been excluded from the SGE. This error had no effect on the total grant claimed by the Council.</p> <p>Our procedures on the Hillingdon LIDO SGE identified one minor typographical error on the SGE. This error had no effect on the total grant claimed by the Council.</p>
<p>Deloitte response</p>	<p>We discussed the error on the Hillingdon Workmates grant with the Council and the Council chose to amend the grant claim form to reflect the £40,000 income that had been received.</p> <p>We discussed the error on the Hillingdon LIDO grant with the Council and the Council chose to amend the grant claim form to reflect the minor typographical error.</p> <p>In our return submitted to the Audit Commission we reflected the fact that both grant claim forms had been amended but that no numerical amendments were made to the overall entitlement on either of the grant claim forms.</p>

2. Amended/qualified grant claims (continued)

Qualified claims under the Audit Commission framework contract

In addition to the adjustments noted above, a qualification letter was issued in respect of one grant, BEN01 – Housing and council tax benefits scheme (“BEN01 grant”).

A high level comparison of the number of errors with 2009/10 indicated that, in 2009/10 we only identified 2 errors on the BEN01 grant, neither of which required additional workbook testing or extrapolation. In 2010 we identified 8 errors on the BEN01 grant and 2 of these errors required additional workbook testing and extrapolation calculations.

Additional testing was also required on the other 6 errors to ascertain whether the errors were isolated or would require inclusion in the qualification letter. We undertook additional work on all of these errors and were able to conclude that all but three of the errors were isolated, the details on which have been included in the table below. As a result of these 3 errors a qualification letter was issued highlighting the following issues to the grant paying body in accordance with the grant certification instructions:

BEN01 – Housing and council tax benefits scheme

Qualification details

- 1) Our testing on private tenants rent allowances identified 4 errors (2008/9: 1 error) where benefit had been underpaid. As the error related to underpaid benefit there is no eligibility to subsidy and no amendment to the claim form was made as the values stated in the BEN01 claim correctly reflect the payments which have been made to the claimant. Where errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing; additional testing on 40 cases enabled us to conclude that this type of error was isolated. Discussion with the Council confirmed that this error would be adjusted in the 2010/11 grant return by the Council and hence did not require qualification in 2009/10. However, during the additional testing the Council identified 8 further errors which predominantly related to changes in tax credits not being updated onto the system and the miscoding of backdated expenditure. The result of these errors was an overstatement of the grant of £477.85. The Council informed us of the overall value of these errors but no further testing was undertaken by us on this type of error and we have not corroborated the value of these errors. The Council was not able to demonstrate that these errors were isolated and therefore we extrapolated the error across the rent allowances population of £78,678,281 to give a total extrapolated overstatement of £96,012. 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 claim form that would have allowed us to conclude that it was fairly stated.

2. Amended/qualified grant claims (continued)

BEN01 – Housing and council tax benefits scheme (continued)

Qualification details (continued)

- 2) Our testing on council tax benefit identified 1 case where benefit had been underpaid by £8.89 due to a software deficiency applying pension credit income from the incorrect date.

As the error related to underpaid benefit there is no eligibility to subsidy. There has been no amendment to the BEN01 claim form as the values stated in the BEN01 claim form correctly reflect the payments which have been made to the claimant. We understand that the software deficiency will be corrected by Northgate in 2010/11 although as yet we understand that there is no confirmed date for this.

We extended our testing in order to conclude on whether this was an isolated error. The Council produced a report from its Northgate system which indicated that there were 950 cases in the year in which claimants had pension credit changes. The Council reviewed 40 of these cases and this review indicated 7 further cases with a system deficiency with overpayments on 3 of these cases. The Council was unable to quantify the population value of the 950 cases and we therefore used our sample population of £62,730 to extrapolate the overpayment error of £2.04 across the council tax benefit population of £24,665,768 which resulted in an extrapolated error of £802.

- 3) Our testing of non HRA rent rebates identified 1 case where benefit had been underpaid by £166.30 as a result of the Council omitting to include working tax credits and a dependent applicable amount from the benefit calculation. We undertook additional testing but were unable to conclude that the error was isolated.

As the error related to underpaid benefit there is no eligibility to subsidy and we have not extrapolated the error. No amendment to the BEN01 claim form was made as the error related to underpaid benefit and the BEN01 claim form correctly reflected the amount paid to the claimant.

2. Amended/qualified grant claims (continued)

Modified claims outside of the Audit Commission framework contract

In addition to the grants we have certified under our Audit Commission framework contract, the Council requested that we undertake agreed upon procedures on one additional grant, Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2) (“Gateway grant”).

Gateway grant	
Modification details	<p>The Gateway grant is a London Development Agency (“LDA”) single programme grant which aims to assist individuals in finding work around the Heathrow Airport area. As this grant is outside of the Audit Commission framework contract we signed a tripartite agreement with the LDA and the Council setting out the exact procedures that we were required to undertake on the Gateway grant claim form, the Statement of Output Delivery and Expenditure (“SODE”); this agreement also provided the form of our report to the Council and the LDA.</p> <p>The report required us to give an opinion on whether the grant was fairly stated and to include details of any of the agreed upon procedures which we were not able to complete.</p> <p>We reported that the SODE was fairly stated subject to the following observations:</p> <ul style="list-style-type: none">• At the time of testing the expenditure, 2 out of 5 timesheets were not available to view; and• Our testing of outputs identified an under claim of £200 in relation to a skills development output for one individual. <p>No amendments were made to the Gateway grant claim form on the basis of materiality.</p>

3. Certification information

Our work on the Council grant audits for the year ended 31 March 2010 is now complete and the table below summarises the results of this work and our billings by grant claim. Under the Audit Commission framework agreement we bill our grant work on a time incurred basis. Significant differences on fee when compared to the 2009 are explained beneath the table.

Certification instruction	Claim/ return	2010 value of claim (£)	2010 results of audit work	2010 audit fee (£)	2009 audit fee (£)
BEN01	Housing and council tax benefits scheme	150,612,180	Qualified	100,304 *	55,000
CFB06	Pooling of housing capital receipts	4,951,296	Satisfactory	3,373	3,690
EYC02	Sure start, early years and childcare	9,576,622	Satisfactory	4,460	5,325
HOU01	HRA subsidy	-10,570,548	Satisfactory	2,953 **	13,500
HOU02	HRA subsidy base data return	N/A	Satisfactory	4,213 **	18,400
LA01	National non-domestic rate return	299,056,297	Amended	10,958	13,788
PEN05	Teachers' pension return	18,341,411	Amended	7,655	6,000
RG31	Single programme LDA – Hillingdon LIDO/ Hillingdon sports & leisure centre	525,000	Amended	2,761	2,925
RG31	Single programme LDA – Workmates – West London working persona advice and outreach	40,000	Amended	2,761	2,925
RG31	Single programme LDA – London Youth Offer	219,260	Satisfactory	2,761	2,925
RG31	Single programme LDA – Childcare Affordability Programme 05	117,785	Satisfactory	2,760	2,925
HOU21	Disabled facilities	1,530,000	Satisfactory	3,320 **	9,365
Gateway	Single programme LDA - Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2)	308,609	Modified	7,085 ***	-
TOTAL				155,364	136,768

3. Certification information (continued)

* The audit fee on the BEN01 grant has increased since 2009. The main reasons for this are:

- We received two letters from the Department of Work & Pensions (“DWP”) in 2010 which meant that additional work on the BEN01 grant was required. Although one letter related to 2009, due to the timing of when we received the letter, work on this was included within our 2010 fee. Work on both the letters was completed by a senior manager.
- In 2009 we only identified 2 errors on the BEN01 grant, neither of which required additional workbook testing or extrapolation. In 2010 we identified 8 errors on the BEN01 grant. Under our Audit Commission contract we are required to undertake additional prescriptive testing when we identify errors. 2 of the 8 errors required additional workbook testing and extrapolation calculations. Additional testing was also required on the other 6 errors to ascertain whether the errors were isolated or would require inclusion in the qualification letter.
- We have discussed the grant billing with Management at the Council and have agreed to provide monthly cost summaries and progress updates on a grant by grant basis. We believe that this will enable increased efficiencies during 2010/11.

** The audit fee on the HOU01, HOU02 and HOU21 grants has decreased since 2009. The main reasons for this are:

- In accordance with the tests on the certification instructions set out by the Audit Commission, in 2009 we undertook detailed testing on the HOU01, HOU02 and HOU21 grants. Where controls around grant claim form preparation are satisfactory, this detailed testing is done on a rotational basis. Our testing of controls indicated that detailed testing was not required in 2010.
- In 2009 the HOU02 grant was re-certified by the Council which resulted in additional costs being incurred to audit the re-certification.

*** The Gateway grant is outside of our Audit Commission framework contract and was a grant we were requested to audit for the first time in 2010.

4. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
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Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy.
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5. Responsibility statement

This letter has been discussed and agreed with the Chief Executive and Director of Finance of the Council. A copy of the letter will be presented at the Audit Committee on 10 March 2011.

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

Deloitte LLP

Chartered Accountants

Birmingham

14 February 2011

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 grant 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 grant 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.

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