

# Adur District Council

Joint Governance Committee Progress Report

March 2016







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The Members of the Joint Governance Committee  
Adur & Worthing Councils  
Worthing Town Hall  
Chapel Road  
Worthing  
West Sussex  
BN11 1HA

09 March 2016

Dear Committee Members

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kate Handy  
Executive Director  
For and behalf of Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Joint Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure –** If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 2015/16 audit

### **Fee letter**

We issued our 2015/16 fee letter to the Council in 2015.

### **Financial Statements**

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning we will continue to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

#### **Planning and interim visit**

We are scheduled to complete our walkthrough of the key financial systems in March and April 2016.

There are no significant matters arising from our initial planning meetings that we need to bring to your attention at this stage. We are continuing to liaise with officers on their plans in relation to the new requirements for transport infrastructure assets.

We will update the Committee when the testing of controls and early substantive testing has been completed.

#### **Internal Audit**

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

#### **Post statements visit**

We have finalised dates for our audit visit in August, and we have had early discussions with officers regarding the working papers required in support of the audit.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the next Joint Governance Committee in June 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries and payroll data.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

## Value for money

The NAO consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: <http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment. There is no requirement for us to conclude nor report against the following sub-criteria:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report the risks we have identified, and associated work we will carry out, to the Joint Governance Committee in June 2016.

## Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

## Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter	2015	Completed
Risk assessment and setting of scope of audit	<b>March 2016</b>	Audit Plan	June 2016	To start 14 <sup>th</sup> March 2016
Testing of routine processes and controls	<b>March / April 2016</b>	Audit Plan	June 2016	
Year-end audit	<b>August 2016</b>	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2016	Work is planned to start during August 2016.



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# Worthing Borough Council

Joint Governance Committee Progress Report

March 2016







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# Certification of claims and returns annual report 2014-15

Adur District Council

January 2016

Ernst & Young LLP



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Building a better  
working world

The Members of the Joint Governance Committee  
Adur & Worthing Councils  
Worthing Town Hall  
Chapel Road  
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West Sussex  
BN11 1HA

January 2016  
Ref:

Direct line: 023 8038 2043  
Email: [khandy@uk.ey.com](mailto:khandy@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2014-15 Adur District Council**

We are pleased to report on our certification work. This report summarises the results of our work on Adur District Council's 2014-15 claims.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### **Statement of responsibilities**

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £20,666,871. We met the submission deadline. We issued a qualification letter, details of which are also included in section 1. Our certification work found errors which had an impact on the subsidy paid.



Last year we made five recommendations. The Council has made progress in implementing these recommendations, but improvements were not expected to be realised in the 2014-15 period. Details are included in section 4.

Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website ([www.psaa.co.uk](http://www.psaa.co.uk))

We welcome the opportunity to discuss the contents of this report with you at the March Joint Governance Committee.

Yours faithfully

A handwritten signature in black ink that reads 'K L Hardy'.

Kate Handy  
Executive Director  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£20,666,871
Amended/Not amended	Amended. Further details of reasons for amendment are set out below.
Qualification letter	Yes
Fee – 2014-15	£16,307
Fee – 2013-14	£41,625
Recommendations from 2013-14	We identified five recommendations in 2013-14 which remain relevant for 2014-15. Our assessment of progress against these recommendations is set out in Section 4.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete 3 samples of 20 cases for authorities with a Housing Revenue Account (HRA), covering HRA Rent Rebate, Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases. Where errors are identified in our initial testing, more extensive testing on an additional sample of 40 cases (or the total population if less than 40) is required, for each error found. This is known as "40+" testing.

For 2014-15, we found a number of errors requiring 9 sets of extended "40+" testing covering all case types.

The "40+" testing identified a number of cases where similar errors had occurred. Where we tested 100% of the population, the authority amended the claim form.

For those "40+" tests where we did not test the whole population, we extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. This was then reported in our qualification letter, but no amendment was made to the claim form.

The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

A summary of the key issues found is shown below:

- Claimant Income
  - Non-HRA Rent Rebates: Our initial testing identified 6 cases where a claimant's income was incorrectly calculated due to an error in calculating Schedule D self-employed income, Schedule E earned income, child care costs or an incorrect figure had been used for Child Tax Credits. The total population of 26 Non-HRA Rent Rebate cases where the claimant was in receipt of income was therefore tested an amendment made to the claim form to move £838 from cells 11,14 and 28 to cells 12, 26 and 31, therefore reducing subsidy claimed.
  - HRA Rent Rebates: Our initial testing identified 4 cases where a claimant's income was incorrectly calculated due to an error in calculating State Retirement Pension, Schedule D self-employed income, Student Loan and Grant income or there was no evidence to support a claimant's Disability Living Allowance. An

additional 40 HRA Rent Rebate cases containing an income assessment were therefore selected and tested. The additional testing identified 13 further errors. We calculated an extrapolated error suggesting cell 61 (and therefore subsidy being claimed) was overstated by £17,075, which is reported in our Qualification Letter.

- Rent Allowances: Our initial testing identified 2 cases where a claimant's income was incorrectly calculated due to incorrect calculation of Schedule D self-employed income or incorrect calculation of Statutory Maternity Pay. An additional 40 Rent Allowance cases containing an income assessment were therefore selected and tested. The additional testing identified a further 30 errors. We calculated an extrapolated error suggesting subsidy claimed was overstated by £33,783, which is reported in our Qualification Letter.
- Non-Dependant Income
  - HRA Rent Rebates: Our initial testing identified 1 case where a Non-Dependant's self-employed earnings had been miscalculated. An additional 40 HRA Rent Rebate cases containing a Non-Dependant's income assessment were therefore selected and tested. Our additional testing identified five further errors. We calculated an extrapolated misclassification error of £210, which is reported in our Qualification Letter. This had no impact on the subsidy being claimed.
- Rent Cost
  - Rent Allowances: We identified 3 cases where rent costs were incorrect. An additional 40 Rent Allowances cases were selected and tested to confirm the correct rent had been applied. No further errors were identified from the additional sample. We therefore calculated an extrapolated error suggesting subsidy being claimed was overstated by £132, which is reported in our Qualification Letter.
- Overpayments
  - Non-HRA Rent Rebates: Our initial testing identified 3 misclassification errors resulting in overpayments of subsidy. One of these errors arose from late notification of DWP data through the ATLAS system, which led to misclassification of the error on the claim form. 40 + testing was completed for the two remaining errors relating to both cells 24 and 28. Following the additional testing, the claim form was amended to move the total value (£74) of Cell 24 to Cell 28 (Eligible Overpayments). The remaining two errors resulted in the total population of cell 28 being tested (26 cases, £19,263) and appropriate adjustment made on the claim form to reduce subsidy being claimed by moving £1,601 from cell 28 to cells 26 and 27.
  - Rent Allowances: Our initial testing identified 1 misclassification error resulting in overpayment of subsidy. This resulted from the same DWP/ATLAS error noted above. The claim form was amended to move the total value (£1,143) of Cell 111 to Cell 114, therefore increasing subsidy claimed.
- Modified Schemes:
  - Testing of our initial sample identified 1 Rent Allowance case where incorrect statutory disregard and attendance allowance had been included in the benefit calculation. The remaining population of 5 cases was tested and 4 further errors identified. The claim form was amended to correct these errors, reducing subsidy claimed by £95.



## 2. 2014-15 certification fees

The Audit Commission determine a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	41,625	13,480	16,307
<b>Total</b>	<b>41,625</b>	<b>13,480</b>	<b>16,307</b>

The indicative fee for 2014-15 is based upon the fee charged in 2012-13, where a number of errors were found and 4 workbooks of "40+" testing were completed. In 2014-15, the errors identified resulted in 9 workbooks of "40+" testing being completed. Our additional fee outlined above therefore relates to the 5 sets of extended "40+" testing not included in the scale fee.

The additional fee charged represents the cost of the work resulting from the additional 5 workbooks. The extra fee is subject to approval by PSAA (Public Sector Audit Appointments).

The fee is significantly less than the 2013-14 fee because CenSus staff were able to undertake all the "40+" testing on our behalf (as required by the certification instructions). Our role was therefore limited to selecting samples, reviewing the additional testing and reporting the errors. In addition, the level of support we were required to provide to officers when completing the "40+" workbooks was significantly less and the quality of these workbooks had improved. The certification therefore involved significantly fewer audit resources than in 2013-14.

### 3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £27,019. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:

<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance before seeking any such variation.

## 4. Summary of recommendations

Our findings from our 2014-15 work are similar to those from 2013-14, where a number of recommendations were raised. We therefore believe it appropriate for the authority to continue to implement those recommendations raised in 2013-14. These are outlined below, together with our assessment of progress to date.

### Recommendation

	Priority	Agreed action and comment	Deadline	Responsible officer	Progress To Date
1	High	<p>A Quality plan was Implemented as a result of the 12-13 audit. This plan was internally audited and assurance given that the actions in the plan had been effectively undertaken. Some elements of the plan have been incorporated into 'everyday business' and are ongoing.</p> <p>A further plan based on the 13-14 audit outcome is being developed and will be finalised once the DWP Performance Development Team have visited to offer guidance and/or advice. In the meantime, significant, diverse action is being taken to address issues raised in the 13-14 audit.</p>	31/03/15	Tim Delany, Head of Revenues and Benefits (CenSus)	We are aware that a Quality Plan has been prepared and is being implemented.
2	High	Activity and outcomes related to the 13-14 action plan will be reported at each PMB and JC. The Benefits Manager will report and discuss progress with the Head of Service each month.	Ongoing	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.

Joint Committee.

3	Increase quality assurance checks and implement training in areas where errors have been identified including self-employed and earned income.	High	Activity is already being taken in these areas; additional staff have been deployed to complete an exercise to review all earned income and self-employed cases and to conduct 100% quality checks on 'current' cases. Several strands of training have been (or are being) arranged.	Ongoing	Morag Freitas, CenSus Benefit Manager	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.
4	Undertake work or review the 2014-15 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	High	The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.	30/03/15	Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager	Evidence of review of the modified schemes and overpayment classification was reviewed as part of the audit. The initial training focus was on earned income and we identified fewer errors in this area in our initial testing for 2014-15. We expect to see fewer errors in self-employed earnings in 2015-16 as the training has now been implemented in this area.
5	Introduce robust, evidenced checks on the preparation of the subsidy claim to ensure that the Director of Corporate Resources can certify the claim to state that the authority's	High	See above.	Ongoing - at least monthly	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.

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Dear Members

## **Certification of claims and returns annual report 2014-15 Worthing Borough Council**

We are pleased to report on our certification work. This report summarises the results of our work on Worthing Borough Council's 2014-15 claims.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### **Statement of responsibilities**

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £37,612,633. We met the submission deadline. We issued a qualification letter, details of which are also included in section 1. Our certification work found errors which had an impact on the subsidy paid.





Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website ([www.psa.co.uk](http://www.psa.co.uk))

We welcome the opportunity to discuss the contents of this report with you at the March Joint Governance Committee.

Yours faithfully

A handwritten signature in black ink that reads 'K L Hardy'.

Kate Handy  
Executive Director  
Ernst & Young LLP  
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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£37,612,633
Amended/Not amended	Not Amended
Qualification letter	Yes
Fee – 2014-15	£8,954
Fee – 2013-14	£10,912

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

For authorities without a Housing Revenue Account (HRA), the certification guidance requires auditors to complete 2 samples of 20 cases covering Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases. Where errors are identified in our initial testing, the certification guidance requires auditors to complete more extensive '40+' or extended testing.

We found errors in the calculation of claimant income within our initial sample of Rent Allowance cases. We therefore undertook 40+ extended testing in this area.

We calculated an extrapolated error across the total population of Rent Allowance cases of £6,629. This was reported to the DWP in our Qualification Letter.

The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

## 2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	10,912	7,730	8,954
<b>Total</b>	<b>10,912</b>	<b>7,730</b>	<b>8,954</b>

The indicative fee for 2014-15 is based upon the fee charged in 2012-13, where no errors were identified in the certification of the claim.

In 2014-15, the errors identified resulted in 1 workbook of "40+" testing to be completed. The additional fee charged therefore represents the cost of the additional work resulting from the error and 40+ testing, including:

- discussing and agreeing errors with officers;
- selection of the additional sample;
- aiding officers to complete the 40+ testing in DWP workbooks, including completing some 40+ testing ourselves; and,
- the preparation of a Qualification Letter to the DWP.

The extra fee is subject to approval by PSAA (Public Sector Audit Appointments)

### 3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £8,184. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:

<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance before seeking any such variation.

## 4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

<b>Recommendation</b>	<b>Priority</b>	<b>Agreed action and comment</b>	<b>Deadline</b>	<b>Responsible officer</b>
Increase quality assurance checks and implement training in areas where errors have been identified including self-employed and earned income.	High	To be agreed.	Ongoing	Paul Tonking, Head of Revenues & Benefits

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