

Report to Audit committee
11 March 2014
Report of Chief finance officer
Subject Certification of claims and returns annual report 2012-13

Item

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Purpose

This report presents the Certification of claims and returns annual report 2012-13.

Recommendation

To review and note the attached report from the council's external auditor.

Corporate and service priorities

The report helps to meet the corporate priority value for money services.

Financial implications

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

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Report

Background

1. This annual certification report summarises the findings from the 2012-13 certification work undertaken on claims and returns.

Key points to note

2. The audit committee is asked to note the following significant matters covered in the report:
 - (a) The covering letter sets out the responsibilities of the auditors and the audited body.
 - (b) The report outlines the results of the 2012-13 certification work of three claims and returns with a total value of over £162.795 million.
 - (c) The housing and council benefits subsidy claim has been qualified. Details of the qualification are set out in section 1 of the report.
 - (d) During the certification work two errors were identified in the pooling of housing capital receipts that were amended by officers.
 - (e) Fees for the certification work are summarised in section 2 of the report. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. The actual fees for 2011-12 have been included to assist year on year comparisons.

The Members
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10 February 2014

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Dear Member

Certification of claims and returns annual report 2012-13 Norwich City Council

We are pleased to report on our certification work. This report summarises the results of our work on Norwich City Council's 2012-13 claims and returns.

Scope of work

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

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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.

This annual certification 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 audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £162.795 million. We met the submission deadlines for the housing and council tax benefits subsidy claim and the national non-domestic rates return.

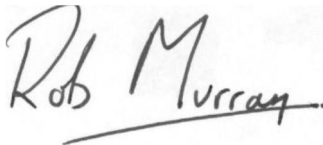
The audit submission of the pooling of capital receipts was late. This was due to issues raised on administration costs and capital allowances.

We issued one qualification letter for the housing and council tax benefits subsidy claim. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant claim entries.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee.

Yours faithfully



Rob Murray
Director
Ernst & Young LLP
Enc

Certification of claims and returns annual report 2012-13

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1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 81,537,807
Amended	Yes – subsidy increased by £82 to £81,537,889
Qualification letter	Yes
Fee - 2012-13	£43,535
Fee - 2011-12	£90,323

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in several areas.

Extended '40+' testing and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues which were included in our qualification letter:

- differences between benefit granted per the claim form and benefit granted per the software supplier's reconciliation of benefit granted to benefit paid,
- we could not test uncashed payments as officers could not provide an audit trail for them,
- income assessment errors across Non HRA Rent Rebates, Rent Allowance and Council Tax Benefit. Extended 40+ testing was applied to quantify results and report,
- incorrect date for change in benefit, accommodation classification error, and incorrect application of maximum weekly amount on household size rather than size of accommodation provided for Non HRA Rent Rebates,
- misclassification of HRA Rent Rebates extended payment,
- incorrect classification of eligible overpayments for Non HRA Rent Rebates, HRA Rent Rebates, Rent Allowances and Council Tax Benefits. Extended 40+ testing was applied to quantify results and report, and
- errors in the modified scheme cases (modified scheme cases record the Authorities' expenditure on increases in benefits awarded to war pensioners or war widows).

Following receipt of the qualification letter the DWP have requested officers carry out further work. This work will require testing and agreement from the External Auditor. This will result in an additional fee which will be agreed with officers and the Audit Commission.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£74,561,764
Limited or full review	Full review
Amended	No
Qualification letter	No
Fee – 2012-13	£1,285
Fee – 2011-12	£1,981

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors in the national non-domestic rates return and we certified the amount payable to the pool without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£6,694,722
Limited or full review	Full review
Amended	No
Qualification letter	No
Fee – 2012-13	£4,030
Fee – 2011-12	£4,473

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

We identified two errors on the pooling of housing capital receipts return that were amended by officers:

- the entries for capital allowances were amended to only include planned affordable housing and regeneration projects rather than the full capital spend on the Housing stock, and
- administration costs were reduced for a property that is not part of the pooling regime.

2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Norwich City Council for 2012-13 was £48,850. The actual fee for 2012-13 was the same as the indicative fee. This compares to a charge of £96,777 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Certification of claims and returns	96,777	48,850	48,850*

*As reported in section 1, the DWP have requested further work which will require testing and agreement from the External Auditor. This will result in an additional fee which will be agreed with officers and the Audit Commission.

Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

The fees for 2012-13 were calculated based on those for 2010-11 less 40%.

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £56,900, this is calculated based on the actual fees for 2011-12. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

[<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

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