

Certification of claims and returns annual report 2012-13

Southampton City Council

December 2013

Ernst & Young LLP



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17 December 2013

Ref: SCC/Claims/2012-13

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Dear Member

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

We are pleased to report on our certification work. This report summarises the results of our work on Southampton 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

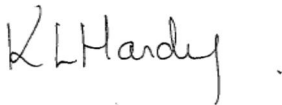
Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified four claims and returns with a total value of £244,700,245. We met all submission deadlines. We issued one qualification letter for the Housing and Council Tax Benefits claim. Details of the qualification matters are included in section 1. Our certification work found a more minor error which the Council corrected in respect of the Pooling of Housing Capital receipts return. The amendment had no effect on the amount payable to the DCLG. We have not made any recommendations for improvement.

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 and their values after the 40% reduction to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the 3 February 2014 Governance Committee.

Yours faithfully



Kate Handy
Director
For and on behalf of Ernst & Young LLP
Southampton

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1. Summary of 2012-13 certification work

We certified 4 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	£131,389,591
Limited or full review	Full
Amended	Not amended
Qualification letter	Yes
Fee - 2012-13	£28,790
Fee - 2011-12 (60%)	£35,505
Fee - 2011-12 Full	£52,508
Recommendations from 2011-12:	Findings in 2012-13
None	N/A

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.

Our initial testing identified two cases where benefit had been underpaid; one relating to Job Seekers Allowance and one relating to the treatment of Working Tax Credits. As no subsidy is paid for underpaid benefit, and these specific errors could not result in overpaid benefit, no further testing was carried out.

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 which could lead to an overpayment. We found two cases in our initial testing where an error had been made that if it were to be repeated could lead to an overpayment. In one case the actual level of rent had been incorrectly entered and in the other case the Statutory Sick Pay (SSP) had been included in the benefit calculation for four weeks when it had been awarded for seven weeks.

The results of the extended '40+' testing did not identify any further cases where the actual rent level had been entered incorrectly. The extended testing of SSP cases did identify four further cases where SSP had been incorrectly included in the benefit calculation. The extrapolated value of the SSP errors that were identified in our initial and extended testing amounted to a potential total overpayment of £218 in the claim.

We have reported the underpayments and the results of the 40+testing to the DWP in a qualification letter.

Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	£10,797,570
Limited or full review	Full
Amended	Not amended
Qualification letter	No
Fee - 2012-13	£1,850
Fee - 2011-12 (60%)	£3,075
Fee - 2011-12 (Full)	£5,126
Recommendations from 2011-12:	Findings in 2012-13
None	N/A

The Teachers' Pension Scheme is a contributory pension scheme run separately from the local government pension scheme and administered by Teachers' Pensions on behalf of the Department for Education. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government. Auditors are required to carry out checks on the return made.

We found no errors on the teachers' superannuation return and certified the return without qualification.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£96,747,519
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,180
Fee – 2011-12 (60%)	£2,800
Fee – 2011-12 (Full)	£4,666
Recommendations from 2011-12:	Findings in 2012-13
None	N/A

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 on the national non-domestic rates return and we certified the return without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£5,765,565
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£1,130
Fee – 2011-12 (60%)	£1,629
Fee - 2011-12 (Full)	£2,715
Recommendations from 2011-12:	Findings in 2012-13
None	N/A

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government (DCLG). Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities that have a housing function, 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.

The testing carried out identified one minor error that has been corrected in relation to the classification of a property. This minor error did not result in a change to the amount payable to the DCLG.

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 Southampton City Council for 2012-13 was £32,950. We have completed the work required within this indicative fee total. This compares to a charge of £66,677 in 2011-12.

Claim or return	2011-12 Actual fee £	2011-12 2011-12 fee less 40% reduction £	2012-13 Indicative fee £	2012-13 Actual fee £
Housing and council tax benefits	52,508	31,505	28,790	28,790
HRA subsidies	1,662	997	N/A	N/A
Teachers' superannuation return	5,126	3,075	1,850	1,850
National non-domestic rates return	4,666	2,800	1,180	1,180
Pooling of housing capital receipts return	2,715	1,629	1,130	1,130
Total	66,677	40,006	32,950	32,950

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

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction and because we were not required under the Audit Commission's certification instructions to complete a full review for the teachers' superannuation, national non-domestic rates and pooling of housing capital receipts returns in 2012/13. As this was our first year as your external auditors we completed full reviews for these returns but the fees for this work has not been recharged you.

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 £35,800. 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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