

The Members of the Civic Affairs Committee
Cambridge City Council
The Guildhall
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Dear Member

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

We are pleased to report on our certification work. This report summarises the results of our work on Cambridge 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 £136.8 million. We met all submission deadlines. We issued one qualification letter. Details of the qualification matters are included in section 2. Our certification work found some other more minor errors which the Council corrected. The amendments had a marginal effect on the grant due.

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 Civic Affairs Committee on the 29 January.

Yours faithfully



Mark Hodgson
Director
Ernst & Young LLP

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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	£42,803,386
Limited or full review	Full
Amended	Amended
Qualification letter	Yes
Fee - 2012-13	£20,655
Fee - 2011-12	£19,227
Recommendations from 2011-12:	Findings in 2012-13
None	<p>Errors were identified on two out of the four initial samples selected. This required additional testing to be performed in line with certification requirements.</p> <p>A qualification letter was issued summarising the issues found from the original and additional testing results. One of the issues was detailed in nature.</p> <p>The Council also made an amendment to the claim to correct a reconciliation issue.</p> <p>This led to an additional fee of £7,755 being levied, which is included within the £20,655 set out above.</p>

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.

Following our initial testing we found;-

- ▶ One error that required extended '40+' testing .The extended testing did not identify any further errors and we reported our findings in our qualification letter.
- ▶ Our initial testing of Rent Rebates for tenants of non HRA properties identified that the Council had awarded housing benefit based on an eligible rent of 90% of the one bedroom self-contained LHA rate plus management costs. In all cases the actual amount of rent paid to the Landlords of the Bed & Breakfasts and hotels was considerably higher. Any additional payment to meet any shortfall is funded outside of the housing benefit scheme by the Council's homelessness prevention team

This approach is not in accordance with the guidance available to us and we could not conclude that this approach is in accordance with the regulations. Officers state that they took the approach based on discussions with the Department and we therefore raised it in our qualification letter as information for the Department to consider and determine formally.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£89,496,225
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,945
Fee – 2011-12	£1,016
Recommendations from 2011-12:	Findings in 2012-13
None	None

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 amount payable to the pool without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£4,534,195
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£521
Fee – 2011-12	£1,327
Recommendations from 2011-12:	Findings in 2012-13
None	None

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 found no errors on the pooling of housing capital receipts return and we certified the amount payable to the pool without qualification.

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 scale fee for Cambridge City Council for 2012-13 was £12,900. The actual fee for 2012-13 was £21,225. This compares to a charge of £11,730 (for comparative claims) in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Housing and council tax benefits subsidy claim	19,227	10,434	18,189
National Non Domestic Rates return	1,016	1,945	1,945
Pooling of housing capital receipts	1,327	521	521
Certification of claims and returns - annual report	942	- Included in claims fee above	Included in claims fee above
Grant planning, supervision and review (1)	Included in claims fee above	Included in claims fee above -	Included in claims fee above
Total	22,512	12,900	20,655

Fees for annual reporting, 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%.

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction. However, after allowing for the 40% reduction there was an increase in fees for the following claims and returns:

► Housing and council tax benefits subsidy

There has been an increase in the overall fee due to the additional work undertaken to certify the claim. In 2010-11 no additional 40+ testing was required. In 2012-13 this increased to one set of additional 40+ testing, and the extended consideration of the treatment of Non HRA tenants rent rebates and discussions with officers about the qualification letter

► National Non Domestic Rates return

The Audit Commission indicative fee for 2012-13 was based on the fee for the full review done in 2010-11 which was then reduced by 40%. The 2011-12 comparative fee only required a limited review under the grant certification methodology and was therefore less than the scale fee for the full review required in 2012-13 under the Audit Commission certification instructions (Part A and Part B testing).

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 £12,700. 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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