

The Members of Governance & Audit & Standards Committee
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Dear Member

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

We are pleased to report on our certification work. This report summarises the results of our work on Portsmouth 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 six claims and returns with a total value of £226,361,455. We met all submission deadlines. We issued two qualification letters for the Housing and Council Tax Benefits and Teachers' Superannuation claims. Details of the qualification matters are included in section 2. 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 January 2014 Governance and Audit and Standards Committee.

Yours faithfully

K.L Handy
Director
Ernst & Young LLP
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Certification of claims and returns annual report 2012-13

Contents

1. Summary of 2012-13 certification work	4
2. 2012-13 certification fees.....	8
3. Looking forward.....	9

1. Summary of 2012-13 certification work

We certified 6 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	£122,098,234
Limited or full review	Full
Amended	£122,099,557
Qualification letter	Yes
Fee - 2012-13	£22,795
Fee - 2011-12 (60%)	£27,809
Fee - 2011-12 Full	£46,346
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 on rent allowances identified 1 case where benefit had been underpaid due to the incorrect calculation of average wages, therefore overstating income. As there is no eligibility to subsidy for benefit which has not been paid, this does not constitute an error per se. However, because an error in miscalculating the claimant's average weekly income could also result in overpayments, an additional random sample of 40 cases was tested.

In the additional testing, a further 6 errors were identified. Four of these resulted in an underpayment to the claimant, and so, as above, are not classified as errors. However, 2 resulted in overpayments. The percentage error rate in the sample reflects the individual cases selected. The value of the errors found ranged from £1 - £56, and the benefits periods ranged from 1 to 8 weeks.

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

Similar findings have been included in our qualification letters for the last two years. Given the nature of the population for rent allowances, and the variation in the errors found, it is unlikely that significant additional work will result in amendments to the claim form that would allow me to conclude that it is either fairly or unfairly stated.

The amendments made to the claim were as the result of minor errors identified by the Council in the composition of the claim from the underlying Northgate records.

Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	£10,593,365
Limited or full review	Full
Amended	Not amended
Qualification letter	Yes
Fee - 2012-13	£1,447
Fee - 2011-12 (60%)	£929
Fee - 2011-12 (Full)	£1,549
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 qualified the return on Test 7a of the CI, which requires us to test ..."contributory salaries have been extracted correctly from payroll records and included in section 1 column 1 in the appropriate tier."

In 2012-13 the Council compiled monthly reports using annual salaries to allocate teachers to contribution tiers and uses this for making monthly return to the Department via the STU system. We tested a sample of 11 teachers. In 2 cases we found additional payments made had not been reflected in the salaries included in the monthly reports. In 1 of these cases the impact of the additional payment led to the teacher being included in tier 3 rather than tier 4.

The Council has changed its system in 2013/14 and now assess teachers' paid salaries on a monthly basis to allocate them to the correct contributory tier. We have not tested the revised 2013/14 arrangements.

We also noted that the TP Audit Department had found no errors on the teachers' superannuation return and had certified the amount payable without qualification. However, the Council and TP audit department have ongoing email correspondence over discrepancies in calculating the tiered employees' contributions (£411.04), and employer's contributions (£917.12), using the contributory salary.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£79,998,047
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,255
Fee – 2011-12 (60%)	£872
Fee – 2011-12 (Full)	£1,454
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 amount payable to the pool without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£2,420,750
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,003
Fee – 2011-12 (60%)	£758
Fee - 2011-12 (Full)	£1,264
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 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.

Local Transport Plan Major Projects- Northern Road Bridge

Scope of work	Results
Value of return presented for certification	£5,920,459
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£2,200
No PY Fee	N/A
Recommendations from 2011-12:	Findings in 2012-13
N/A	N/A

The Department for Transport pays grants, under section 31 of the Local Government Act 2003, to local transport authorities in England. The scheme supports major projects such as large public transport infrastructure or road construction scheme

We undertook testing in accordance with the TRA11 CI, and, finding no errors on the Northern Road Bridge project return, we certified the amount of the claim.

There were however a number of improvements suggested to strengthen the audit trail from ledger to monitoring spreadsheet, to grant claim. Officers have agreed a number of changes in financial procedures that should address these issues in 13/14.

Local Transport Plan Major Projects- Tipner

Scope of work	Results
Value of return presented for certification	£5,330,600
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£2,200
No PY Fee	N/A
Recommendations from 2011-12:	Findings in 2012-13
N/A	N/A

The Department for Transport pays grants, under section 31 of the Local Government Act 2003, to local transport authorities in England. The scheme supports major projects such as large public transport infrastructure or road construction scheme

We undertook testing in accordance with the TRA11 CI, and, finding no errors on the Tipner project return, we certified the amount of the claim. Improvements suggested as above.

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 Portsmouth City Council for 2012-13 was £26,500 and we completed our work on the associated claims and returns within this. However, two additional claims required certification, with an associated fee of £4,400. The total of £30,900 compares to a charge of £53,688 in 2011-12.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee £	2011-12 fee less 40% reduction £	Indicative fee £	Actual fee £
Housing and council tax benefits	46,346	27,809	22,795	22,795
HRA subsidies	3,075	1,845	N/A	N/A
Teachers' superannuation return	1,549	929	1,447	1,447
National non-domestic rates return	1,454	872	1,255	1,255
Pooling of housing capital receipts return	1,264	758	1,003	1,003
Scale fee Total	53,688	32,213	26,500	26,500
Northern Road Bridge	-	-	-	2,200
Tipner	-	-	-	2,200
Certification total				30,900

Notes:

1. Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.
2. The cost of the additional work that was completed during our first year as your external auditors has not been recharged to 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 £33,000 – the £28,600 published scale fee and like for like fees on the TRA11 grants. 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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