

Certification of claims and returns annual report 2013/14

Portsmouth City Council

December 2014

Ernst & Young LLP



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The Members of the Governance & Audit & Standards Committee
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xx December 2014

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Dear Members

Certification of claims and returns annual report 2013/14 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 2013/14 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 2013/14, 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 2013/14 certification work and highlights the significant issues.

We checked and certified four claims and returns with a total value of £132,313,836. 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. We have not made any recommendations for improvement.

Fees for certification work are summarised in section 2.

We welcome the opportunity to discuss the contents of this report with you at the 30 January 2015 Governance & Audit & Standards Committee.

Yours faithfully

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

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1. Summary of 2013/14 certification work

We certified 4 claims and returns in 2013/14. The main findings from our certification work are provided below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£108,777,392
Limited or full review	Full
Amended	Amended
Qualification letter	Yes
Fee – 2013/14	£23,729
Fee – 2012/13	£22,795
Recommendations from prior year 2012/13 and findings:	
None	

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

The Council notified us that it had made amendments to the initial claim following submission because the average rent provided by the housing department was incorrect, The impact of this was to increase the claim by £908,178.

Our testing identified a number of errors in the calculation and classification of benefits awarded to claimants during the year, as presented in the subsidy claim:

Rent Rebates

- For 2 of the 20 cases tested, benefit had been underpaid as a result of the Council miscalculating the claimant's average weekly income. As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes.
- However, because errors miscalculating the claimant's average weekly income could result in overpayments, an additional random sample of 40 cases was tested. Of the additional 40 items tested, 6 errors were identified across 5 cases. 5 of these errors resulted in underpayment and 1 resulted in overpayment,
- Whilst the error was only for £58.14 over a 34 week period, we are required to report an extrapolated error of £12,683. However, as this is an extrapolation, the Council has not amended the claim form.

Rent Allowances – Modified Schemes

- In 1 of the 20 cases tested local scheme costs had been understated, and in another overstated, as a result of the Authority misstating the claimant's War Disablement Allowance.

- Testing of an additional sample of 20 cases (the total population of cases with War Disablement Allowance in the relevant cell) identified a further 4 cases where the allowance included in a claimants income was incorrect. Of these 4 cases, two resulted in overstatement of costs, and two in understatement.
- As we have tested 100% of cases with War Disablement Allowance, we were able to provide an actual classification error of £358.17.

Rent Rebates – Modified Schemes

- In 1 of the 20 tested the local scheme cost had been overstated as a result of the Authority including the Mobility Support elements of the claimants War Disablement Allowance in income. This will only ever lead to understatement of subsidy. There is no impact on the claim form.

As well as testing the calculation of individual benefits awards, the certification instructions require further tests including reviewing the reconciliation of benefit awarded to benefit paid during the year. We have confirmed the authority has reconciled the in-year reconciliation cells but when input to the claim form, a number of small minor rounding differences were created.

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

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£4,371,490
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2013/14	£735
Fee - 2012/13	£1,003
Recommendations from prior year 2012/13 and findings:	
None	

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.

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

Scope of work	Results
Value of return presented for certification	
Northern Road Bridge	£5,598,411
Tipner Interchange	£13,566,543
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2013/14	£4,601
Fee - 2012/13	£4,400

Recommendations from prior year 2012/13 and findings:

We identified a need to strengthen the audit trail from ledger to monitoring spreadsheet, to grant claim.	We noted a general improvement in working papers in 2013/14 but there is still scope to strengthen the audit trail further
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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 and Northern Road Bridge project returns, we certified the amount of the claims.

This was the final claim for the Tipner Interchange, but there will be further Northern Road Bridge costs to reclaim in 2014/15.

2. 2013/14 certification fees

The Audit Commission sets composite indicative fee for certification work for each body. The indicative fee for 2013/14 was initially based on actual certification fees for 2011/12, reduced by 40%. This was then further adjusted to reflect the fact that a number of schemes would no longer require auditor certification.

The indicative composite fee for Portsmouth City Council for 2013/14 was £24,464.

We have completed the work required within this indicative fee total.

Claim or return	2013/14 Indicative fee £	2013/14 Actual fee £	2012/13 Actual
Housing and council tax benefits subsidy	23,729	23,729	22,795
Pooling of housing capital receipts return	735	,735	1,003
Teachers' superannuation return	n/a	n/a	1'447
National non-domestic rates return	n/a	n/a	1,255
Subtotal	24,464	24,464	26,500
Local Transport Plan Major Projects	4,601	4,601	4,400
Total	29,065	29,065	30,900

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

Fees fell overall due to the reduction in claims requiring certification and audit efficiencies..

3. Looking forward

The Council's indicative certification fee for 2014/15 is £22,360, made up of the published scale fee of £20,060 and a like for like fee for the remaining TRA 11 grant. This is based on the outturn from 2012/13 certification work, again adjusted for claims no longer requiring review. The actual certification fee for 2014/15 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2012/13 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/201415-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of the Audit Commission, or its successor body, 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 2012/13 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.

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