

The Members of the Corporate Governance Committee  
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Dear Member

## **Certification of claims and returns annual report 2012-13 South Cambridgeshire District Council**

We are pleased to report on our certification work. This report summarises the results of our work on South Cambridgeshire District 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 £101 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 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 Audit Committee on the 21 March 2014.

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	£33,780,330
Limited or full review	Full
Amended	Amended
Qualification letter	Yes
Fee - 2012-13	£20,900
Fee - 2011-12	£23,258
Recommendations from 2011-12:	Findings in 2012-13
None	<p>Errors were identified on three out of the four initial samples selected. This led to significant additional testing, including two sets of full population testing.</p> <p>A qualification letter was issued summarising the issues.</p> <p>This led to an additional fee of £8,560 being levied, which is included within the £20,900 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. We found errors and carried out extended testing in several areas.

Extended '40+' testing and other testing identified errors. We have reported the extrapolated value of errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter was that an incorrect claim start date applied.

We also amended the claim in respect of the following issues:

- incorrect input of ineligible services; and
- LHA rate split applied incorrectly.

### National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£64,089,988
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£2,675
Fee – 2011-12	£2,675
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
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 one error on the national non-domestic rates return and following amendment 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	£2,793,643
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13	£1,135
Fee – 2011-12	£1,134
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
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 one error on the pooling of housing capital receipts return and following amendment 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 South Cambridgeshire District Council for 2012-13 was £16,150. The actual fee for 2012-13 was £24,710. This compares to a charge of £27,067 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 subsidy claim	23,258	13,955	12,340	20,900
National Non Domestic Rates return	2,675	1,605	2,675	2,675
Pooling of housing capital receipts	1,134	681	1,135	1,135
Certification of claims and returns - annual report	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
<b>Total</b>	<b>27,067</b>	<b>16,241</b>	<b>16,150</b>	<b>24,710</b>

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%.

The Authority significantly reduced its grants fee in 2011-12 by undertaking the initial testing on the Housing and council tax benefits subsidy claim.

Fees fell overall compared to 2010-11 because of the Audit Commission's 40% reduction. However, after allowing for the 40% reduction there was a small 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 there was no additional 40+ testing was required. In 2012-13 this increased to three sets of additional testing, one set of 40+ testing for two error types and two sets of full populations testing leading to amendments to the claim.

We agreed the proposed fees with the Executive Director – Corporate Services in November 2013. We are currently awaiting approval of the proposed fees by the Audit Commission.

### **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 £4,900. 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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