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Dear Members

## **Certification of claims and returns annual report 2012-13 Brighton & Hove City Council**

We are pleased to report on our certification work. This report summarises the results of our work on Brighton & Hove 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 sets 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 an approximate total value of £309 million. We met all submission deadlines. We issued a qualification letter for one claim and amended the same claim and two other returns. Details of the qualification matters and amendments are included in section 1. The Council's arrangements for the production of claims and returns remain adequate overall. However, there were weaknesses in supervision and review arrangements for the pooling of housing capital receipts return. We have raised a recommendation in section 4.

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 welcome the opportunity to discuss the contents of this report with you at the 21 January meeting of the Audit & Standards Committee.

Yours faithfully



Helen Thompson  
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 four 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	£ 186,943,021
Limited or full review	Full
Amended	Yes – subsidy increased by approximately £47,000
Qualification letter	Yes
Fee - 2012-13	£21,052
Fee - 2011-12	£41,677
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
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.

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 four sets of extended testing covering housing revenue account rent rebates, rent allowance and council tax.

The extended testing identified a small number of cases where similar errors had occurred. We extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. No amendments were made to the claim. This was because given the nature of the populations tested it was unlikely that even significant additional work would result in amendments to the claim that would allow us to conclude it was fairly stated. We reported the extrapolated value of these errors to the DWP in a qualification letter.

Our initial testing also identified a systematic error in the calculation of claim expenditure for non-HRA rent rebates in cases where there had been a change in accommodation and change in benefit payee. As a result of our findings the Council identified the complete population of non-HRA rent rebate cases affected by this issue, and reviewed all these cases to determine the total impact on the claim. This work showed that the systematic error had resulted in subsidy due to the Council included on the claim was understated by approximately £47,000. We reviewed the Council's testing of these cases and were satisfied that the resulting proposed amendments to the claim were complete and accurate. Given that the work done covered the whole population of affected cases we were satisfied that the claim should be amended in respect of this finding.

### Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	£13,931,658
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee - 2012-13	£3,120
Fee - 2011-12	£3,130
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
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 amount payable without qualification. The draft return submitted for audit was, however, initially prepared on the wrong form. Some additional time was required to re-prepare and certify the year-end return on the required form.

### National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£99,090,998
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£900
Fee – 2011-12	£5,310
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>

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	£2,166,116
Limited or full review	Full
Amended	Yes – value of certified return changed to £8,728,766
Qualification letter	No
Fee – 2012-13	£1,437
Fee – 2011-12	£567
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	N/A

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government (CLG). 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.

Multiple significant amendments were made to the return as a result of the audit. The Council had incorrectly disclosed capital receipts arising from transfers of council dwellings to a not for profit charitable company, Seaside Community Homes, as receipts arising from a small scale voluntary transfer. The receipts arising from the dwelling transfers should have been properly categorised as receipts subject to pooling offset by capital allowances. The resulting errors impacted on both the year end return and each of the 2013/14 quarterly pooling returns made by the Council to CLG.

A large number of the entries on the return were amended as a result of this finding. Each of the four quarterly returns needed to be amended and a new year-end audit return produced. The initial amendment to one of the quarterly returns made by the Council was not correct. That quarterly return needed to be amended again by the Council and a further year-end audit return prepared. This significantly increased the time needed to complete the audit and certify the return.

## 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 Brighton & Hove City Council for 2012-13 was £23,700. The actual fee for 2012-13 was £26,509. This compares to a charge of £52,236 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee <sup>1</sup>
	£	£	£
Housing and council tax benefits subsidy claim	41,677	18,860	21,052
Teachers' superannuation return	3,130	3,120	3,120
National non-domestic rates return	5,310	900	900
Pooling of housing capital receipts	567	820	1,437
Housing subsidy	1,552	N/A	N/A
<b>Total</b>	<b>52,236</b>	<b>23,700</b>	<b>26,509</b>

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction and the removal of the requirement to audit the housing subsidy return. Variations between the 2012/13 indicative and actual fee levels are explained below :

► **Housing and council tax benefits subsidy claim**

As set out in more detail in section 1 of this report we were required to undertake four sets of '40+' additional testing as a result of errors found in HRA rent rebate, rent allowance and council tax benefit. We were required to draft and agree a qualification letter to report our findings in these areas. We also needed to review and re-perform a sample of the work undertaken by the Council in respect of the systematic error detected in HRA rent rebates, and check that resulting amendments to the claim were correctly made. It has been necessary to bill additional fee to cover the cost of this work.

► **National non-domestic rates return**

Under the usual cyclical approach to testing a limited scope review would have been undertaken on the 2012/13 return as a full scope review had been undertaken in 2011/12. The indicative fee for 2012/13 has therefore been set and billed on the assumption that a limited scope review would be undertaken. This has caused the significant year on year decrease in the fee billed to the client.

► **Pooling of housing capital receipts**

As set out in more detail in section 1 of this report numerous significant amendments were required to both the quarterly returns submitted to CLG and year-end return. The amendments made were not initially correct requiring one of the quarterly returns and the year-end return to be amended twice. This significantly increased the time needed to complete the audit and certify the return. It has been necessary to bill additional fee to cover the cost of this work.

<sup>1</sup> At the time of writing proposed variations to the indicative 2012/13 fee for the housing and council tax benefits subsidy claim and pooling of housing capital receipts return are being considered 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 Council's indicative certification fee for 2013-14 is £26,300. 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.



#### 4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
<b>Pooling of housing capital receipts</b>  Improve arrangements for the preparation and review of quarterly submissions to the Department of Communities and Local Government and the year-end audit return.	H	Agreed	For the 2013/14 return	Nigel Manvell, Head of Financial Services

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