

Cherwell District Council

Certification of claims and returns annual report 2012-13

January 2014

Ernst & Young LLP



The Members of the Audit, Accounts and Risk Committee
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13 January 2014

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Dear Member

Certification of claims and returns annual report 2012-13 Cherwell District Council

We are pleased to report on our certification work. This report summarises the results of our work on Cherwell 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 one claim and one return with a total value of £108,247,061. We met all submission deadlines. We issued qualification letters for both the claim and the return. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the grant due.

There were no recommendations from last year that the Council was required to implement.

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 Audit, Accounts and Risk Committee

Yours faithfully



Maria Grindley
Director
Ernst & Young LLP

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1. Summary of 2012-13 certification work

We certified one claim and one return 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	£44,503,668
Limited or full review	Full
Amended	Amended – no impact on subsidy
Qualification letter	Yes
Fee - 2012-13	£16,715
Fee - 2011-12	£22,105
Recommendations from 2011-12:	Findings in 2012-13
None	<p>40+ testing was completed very late in the process and close to the submission deadline due to lengthy elapsed time between the Council requesting reports from its service provider (Northgate) and the receipt of these reports. If further 40+ testing had been required, given the timescales involved, the Council would not have had the capacity to complete this by the deadline.</p> <p>To avoid this in future it is recommended that the Council liaise with its service provider (Northgate) to agree a shorter response time for the production of bespoke reports if required for extended 40+ testing.</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 one area.

Extended '40+' testing and other testing identified errors which the Council amended. They had no net impact on the claim. We have reported underpayments, and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter:

Testing of our initial sample identified one case where the capital tariff was not updated resulting in an overpayment of benefit (value £33.37). Our additional testing identified one further error whereby dependent savings were incorrectly included in the capital tariff calculation and the error resulted in an underpayment. The claim has been amended on the basis of the extrapolated error for the overpayment.

Testing identified one case where the claimant's income was calculated incorrectly. This arose because the original assessment treated the claimant as having started work midway through the month of October when the start date was in fact the beginning of the month. The error resulted in an underpayment and no amendment was required to the claim.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£63,743,393
Limited or full review	Full
Amended	Amended – contribution to the Pool increased by £60,405
Qualification letter	Yes
Fee – 2012-13	£3,085
Fee – 2011-12	£780
Recommendations from 2011-12:	Findings in 2012-13
None	No matters to report

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 errors on the national non-domestic rates return which resulted in the return being amended. The following are the main issues included in our qualification letter:

The council has provided certain information to support backdates and has provided verbal assurance that the necessary steps were taken to ensure the eligibility of these backdates. However, we have received insufficient evidence to provide the necessary assurance that these adjustments are valid or correctly calculated.

We are required to provide assurance that empty premises relief has been applied only to qualifying properties. In eight out of ten cases selected for testing, we found that the authority had not carried out inspections to confirm that the property was empty.

The Council should:

- ▶ Retain evidence in support of backdated adjustments;
- ▶ Ensure that void property inspections are carried out

We selected 10 cases for testing and four of the write offs were found to be in excess of the authorising officer's limit of £5,000 per the authority's write off policy and procedure. We reported this as an exception in our qualification letter but subsequently we were informed that the write-off of insolvency debt is covered by a general provision whereby delegated authority is granted to the Head of Finance without limit.

The Council's write off policy on insolvencies and bankruptcies should be reviewed and made explicit in the NNDR write off procedures to avoid ambiguity.

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 Cherwell District Council for 2012-13 was £19,800. The actual fee for 2012-13 was £19,800. This compares to a charge of £22,881 in 2011-12.

Claim or return	2011-12		2012-13	
	Actual fee £	2011-12 fee less 40% reduction	Indicative fee £	Actual fee £
Housing and council tax benefits subsidy claim	22,101	12,275	16,715	16,715
National non-domestic rates return ¹	780	486	3,085	3,085
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Total	22,881	13,728	19,800	19,800

¹ Increase in 2012/13 NNDR fee is due to additional Part B testing that was not required in 2011/12 but was in 2012/13

² Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

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 £13,400. 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
Housing and council tax benefits subsidy claim	High	These requests are ad hoc reports outside of the main contract. The delay arose due to internal resourcing issues at Northgate as a result of additional work arising from welfare reform.	30 Jan 2014	Service Assurance Team Leader
The Council should liaise with its service provider (Northgate) to agree a shorter response time for the production of bespoke reports if required for extended 40+ testing				
National non-domestic rates return	Medium			
The Council should:			30 Sept 2014	Service Assurance Technical Specialist – Revenues
<ul style="list-style-type: none"> ▶ Retain evidence in support of backdated adjustments; ▶ Ensure that void property inspections are carried out 		<p>These were one off assessments for 2012-13 that related to MoD Bicester. Evidence will be retained in future.</p> <p>Void property inspections are undertaken with current resources available. This will be reviewed to look at the benefits of identifying additional resources and the positive financial impact that this might have on the Council.</p>		Head of Finance and Procurement
The Council's write off policy on insolvencies and bankruptcies should be reviewed and made explicit in the NNDR write off procedures to avoid ambiguity	Medium	The Council's write off policy will be reviewed	30 Sept 2014	Head of Finance and Procurement

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