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Dear Member

Certification of claims and returns annual report 2012-13

Chichester District Council

We are pleased to report on our certification work. This report summarises the results of our work on Chichester 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 any significant issues.

We checked and certified two claims and returns with a total value of £84.4m. We met all submission deadlines.

We would note that as our certification work related to 2012-13, it covers the arrangements for Housing and Council Tax Benefits and for National non-domestic rates that existed during the year. It therefore did not cover the new localisation arrangements that started from 1 April 2013

We issued one qualification letter in respect of your Housing and Council Tax Benefits Claim and details of this is included in section 2. Our work also found errors which the Council corrected and increased the settlement payment to the Council by £107,815. Fees for certification work are summarised in section 2.

We welcome the opportunity to discuss the contents of this report with you at your next meeting.

Yours faithfully

Paul King
Director
Ernst & Young LLP

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Contents

1. Summary of 2012-13 certification work.....	1
2. 2012-13 certification fees	3
3. Looking forward.....	4
4. Summary of recommendations	Error! Bookmark not defined.

1. Summary of 2012-13 certification work

We certified 2 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	£43,007,383
Limited or full review	Full
Amended	Amended – subsidy increased by £107,815
Qualification letter	Yes
Fee - 2012-13	£11,300 [this is the fee to the council and includes a proposed variation of £3000 to the indicative fee covering the cost of extended testing undertaken]
Fee - 2011-12	£9,890
Recommendations from 2011-12:	Findings in 2012-13
None	The adjustment occurred as the Council had not made manual adjustments set out in two supplementary system reports (BENCHK087 and BENCHK099). Matters subject to our qualification report are summarised below.

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 further testing in two areas.

Extended '40+' testing and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties 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:

Up-rating of War Disablement Pension (WDP)

Testing identified that War Disablement Pension (WDP) has not been up-rated since the 2008/09 subsidy year. Although benefit has not been overpaid, it was misclassified between cells on the claim. The Council has identified all affected claims and has corrected the income in the 2013/14 subsidy year. Due to the volume of claims and the number of subsidy years, the Council has been unable to quantify the overall impact in respect of the 2012/13 subsidy year.

Council Tax - Eligible Excess Benefit (Current Year)

Initial testing identified one case where the excess benefit was incorrectly classified as eligible following the death of a claimant. Extended testing identified 5 further cases with the same error.

The value of the errors found ranged from £3.31 to £216.29 and the benefit periods ranged from 1.29 weeks to 13 weeks. Given the nature of the population and the variation in the errors found, we concluded that it was unlikely that even significant additional work will result in amendments to the claim form that would allow us to conclude that it was fairly stated.

The impact of the incorrect classification of excess benefit as ‘administrative delay’ rather than ‘eligible error’, once extrapolated over the population of such cases, is that the subsidy due to the Council will increase by just over £100,000. This is because the rates of subsidy on the value of ‘administrative delay’ cases vary with the total value of such cases. As the value increases there are thresholds above which the rate of subsidy reduces. The adjustment to the claim to correct the mis-classification has the effect of reducing the value of ‘administrative delay’ cases to a level that is below one of the thresholds, and therefore attracts a higher level of subsidy.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£41,275,343
Limited or full review	Full (11-12 Limited review undertaken)
Amended	No
Qualification letter	No
Fee – 2012-13	£1,000
Fee – 2011-12	£147
Recommendations from 2011-12:	Findings in 2012-13
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 no errors on the national non-domestic rates return and 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 fee for Chichester District Council for 2012-13 was £9,300. The actual fee for 2012-13 is £12,300 and includes a proposed variation to the indicative fee to cover the cost of extended testing on the Council's Housing and Council Tax Benefit claim. The final fee for 2012-13 is subject to determination by the Audit Commission.

This compares to a charge of £10,407 in 2011-12. We were not the Council's auditors in 2011-12 and cannot comment on other reasons for variations between certification fees between 2011-12 and 2012-13.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Total	10,407*	9,300**	12,300**

* This figure includes a figure of £370 for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

** 2012-13 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 Council's indicative certification fee for 2013-14 is £6,200. 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.

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