

The Members of the Audit Committee  
Hampshire County Council  
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**Dear Member**

## **Certification of claims and returns annual report 2012-13 Hampshire County Council**

This report summarises the results of our work on Hampshire County 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**

In 2012/13 the only claim requiring certification was the Teachers' Pension Return. The return was certified and submitted by the deadline.

Our work identified an error which the Council corrected and we also issued a qualification letter to draw attention to two issues arising from our review.

We welcome the opportunity to discuss the contents of this report with you at the meeting of the Audit Committee in February.

Yours faithfully

Kate Handy  
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

There was only one return requiring certification in 2012-13. The main findings from our work are provided below.

### Teachers' Pension Return

Scope of work	Results
Value of return presented for certification	Contributory Salary      £285,976,713 Contributions Paid      £62,346,291
Limited or full review	As there was an amendment to the 2011/12 Teachers' Pension return the control environment for the preparation of the 2012/13 return could not be relied upon and as a result a full review was required in 2012/13.
Amended	Yes – The Contributory Salary was amended to £285,863,302
Qualification letter	Yes
Proposed Fee - 2012-13	£3,491
Fee - 2011-12	£4,138

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.

As a result of our review the return was amended and we also identified two issues which resulted in a qualified audit certificate.

- The contributory salary per the return did not agree to underlying records and was amended from £285,976,713 to £285,863,302. The £285,863,302 was a figure which officers could support however having made the amendment there was still an unidentified £6,874 difference between the supporting records used to compile the claim and payroll returns from the schools, the fact that the information sources did not agree was highlighted in the qualification letter.
- The qualification letter also highlighted that the return included information from three schools with their own payroll providers. It was noted that whilst the Council agrees the monthly payments to notifications from these schools it does not have specific arrangements to ensure tiered contribution rates are properly implemented by these payroll providers as required by the scheme.

## 2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative scale fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 (£7,991) adjusted to reflect the fact that the Sure Start scheme no longer requires 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 Hampshire County Council for 2012-13 was £1,550. The proposed fee for 2012-13 is £3,491. This compares to a charge of £4,138 in 2011-12.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee	2011-12 fee less 40% reduction	Indicative fee	Proposed fee
	£	£	£	£
Teachers' Pension return	4,138	2,483	1,550	3,491
<b>Total</b>	<b>4,138</b>	<b>2,483</b>	<b>1,550</b>	<b>3,491</b>

### Teachers' Pension

The Audit Commission indicative fee for 2012-13 was based on the fee for the limited review done in 2010-11 reduced by 40%. An increase in the indicative fee was agreed with the Director of Corporate Resources because a full review was required in 2012-13 under the Audit Commission certification instructions and additional time was needed to certify the return. The additional time was due to the return requiring amendment and the issuing of a qualification letter. Any increases in fees must also be agreed by the Audit Commission and at present we have yet to receive their agreement to the proposed fee.

### 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 £2,400. 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. As the 2012/13 return was amended and qualified we will be seeking a scale fee variation for 2013-14 to allow us to verify that the Council has responded appropriately to our recommendations.

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
The Council should ensure the contributory salary per the return agrees to underlying payroll records and any differences are reconciled.	High			
The Council should ensure it has arrangements in place to ensure tiered contribution rates are properly implemented by schools with their own payroll providers.	Medium			

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