



*St Edmundsbury*  
BOROUGH COUNCIL

# C454

## Performance and Audit Scrutiny Committee 16 April 2012

### Audit Commission - Presentation of Certification of Claims and Returns – Annual Report

#### SUMMARY

Representatives from the Audit Commission will present the attached report, which summarises the Commission's outcomes of its certification work on the Council's 2010/11 claims and returns.

The report includes recommendations arising from the 2010/11 certification work, and the fees arising from that work.

#### PURPOSE OF THE REPORT

The content of this report is for information.

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# Certification of claims and returns - annual report

St Edmundsbury Borough Council

Audit 2010/11



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# Introduction

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**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. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.**

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. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

# Summary of my 2010/11 certification work

## Arrangements for preparing claims and returns could be strengthened

In 2010/11, my audit team certified four claims (housing and council tax benefit, national non-domestic rates, single programme and disabled facilities) with a total value of £74m. My work resulted in amendments to two of the four claims and returns for the year ended 31 March 2011 that the Authority was required to submit for certification. I also issued a qualification letter to accompany my certificate on both of the amended claims.

Table 1: **Summary of 2010/11 certification work**

<b>Number of claims and returns certified</b>	
Total value of claims and returns certified	£74,043,863
Total number of claims certified	4
Number of claims and returns amended due to errors	2
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	2
Total cost of certification work	£54,601

I amended the housing and council tax benefit claim for errors in respect of misclassification of non-HRA rent rebates normal expenditure and modified schemes expenditure. In addition, we were unable to fully certify this claim and issued a qualification letter for the matters arising. I have not recommended any action for Members however I have made one recommendation for officers in respect of this claim. A minor amendment was also made to the Single Programme (Cattle Market) claim. This claim was also certified with an accompanying qualification letter. The issues raised are set out on pages 7 – 9.

# Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£)	Was reliance placed on the control environment?	Value of any amendments made (£)	Was a qualification letter issued?
Housing and council tax benefit scheme	31,873,348	No – an assessment of the control environment is not undertaken for this claim in accordance with Audit Commission guidance.	1,673	Yes – see overleaf
National non-domestic rates return	41,250,515	Yes	None	No
Single programme – Cattlemarket project	1,650,000	No – where claims or returns run over several years part A + B testing is required in accordance with Audit Commission guidance.	Minor copy error with no effect on amount due	Yes – see overleaf

## Housing and council tax benefit scheme (HB)

The HB subsidy claim is a highly material and complex grant claim involving a high volume of transactions. Nationally, the HB subsidy claim has the highest number and proportion of cases with qualification letters. In 2009/10, 231 qualification letters were issued, representing 71% of all cases.

As in previous years, we issued a qualification letter to the Department of Work and Pensions (DWP) on the 2010/11 HB subsidy claim. We also made amendments to the claim. The claim was certified two months after the DWP's submission deadline due to the number of audit issues identified, and the subsequent clearance of additional work and resolution of further queries.

A key element of the HB audit involves taking an initial sample of benefit cases from the headline cells for each benefit type and checking that benefits have been awarded in accordance with benefit regulations and to check that subsidy has been properly claimed. Where testing identifies cases failures within the initial sample, and the auditor is unable to conclude that an amended claim will be fairly stated, an additional sample of 40 cases is required for each cell where the initial testing identified errors. In addition, testing of 40 cases is undertaken in cells where auditors have raised issues on the previous year's claim.

We identified a number of case failures during our initial sample testing. In addition, we identified matters arising from our 2009/10 audit which required further follow up work in 2010/11. This resulted in further testing covering eight additional samples of (at least) 40 cases as follows:

Table 3: **Cells where an additional 40 cases were selected for testing**

Cell	Description	Nature of errors
11	Non-HRA total expenditure	Misclassification of underlying analysis (cells 12 and 13) attracting either zero or 100% subsidy
11	Non-HRA total expenditure	Incorrect rent liability assessment
11	Non-HRA total expenditure	Assessment of income errors
94	Rent allowances total expenditure	Assessment of income errors
109	Rent allowance eligible overpayments	Misclassification of overpayments
142	Council tax benefit total expenditure	Assessment of income errors



Cell	Description	Nature of errors
148	Excess council tax benefit	Misclassification of overpayments
214/231a+d	Rent allowance and council tax benefit modified schemes	Assessment of income errors

The additional testing identified further case failures. We were able to amend the claim in respect of misclassification of non-HRA rent rebates (cells 12 and 13) as additional testing had covered the entire population of these cells. We were also able to amend the claim for modified scheme errors. For the remaining cells, due to the nature and frequency of the errors identified we were unable to conclude that they were fairly stated therefore the matters were reported in a qualification letter that accompanied the certified grant claim to the DWP.

In addition, our qualification letter also reported other issues which were either cross-cutting across all areas of the claim and/or could not be directly linked to individual cells.

We recommend that in advance of the 2011/12 HB audit, officers undertake up-front 40+ testing on all the areas highlighted in Table 3 to give assurance that issues raised in previous years have been addressed.

### Single programme – Cattlemarket project

The Cattlemarket project received Single Programme funding from the East of England Development Agency (EEDA). Our audit tested the Council's statement of grant expenditure to ensure that it was fairly stated and in accordance with the relevant terms and conditions of the scheme. We reported three issues to EEDA in our qualification letter in respect of expenditure:

- in the claim that was prior to EEDA's grant offer date;
- that should have been classified as revenue expenditure rather than capital; and
- recharged to Suffolk County Council and was therefore wholly funded by a third party.

No amendments were made to the claim in respect of these issues. If all of the items above totalling £204,991 were excluded from the claim, there would have been no change to the amount due to the Council from EEDA.

## **Key issues for 2011/12**

### **Transfer to Anglia Revenues Partnership**

In April 2011 the revenues and benefits service transferred to the Anglia Revenues Partnership (ARP). We already undertake a joint audit approach across ARP member authorities therefore we intend to include the audit of St Edmundsbury's HB claim within our existing ARP audit arrangements.

The revenues and benefits IT systems also changed from Northgate to Academy during the year. This represents an increased audit risk for the 2011/12 HB claim given that officers will need to prepare one complex claim derived from two information systems. It has already been identified that there will be a number of rounding issues in respect of overpayments, and the re-award of underpaid benefit, associated with calculations made in the respective systems.

We are also aware that the Northgate system was shut down on 22 July 2011 and officers were unable to access St Edmundsbury Borough Council's data until 18 August 2011. This meant that any changes could not be processed for nearly a month. We therefore anticipate an increased risk concerning LA error overpayments which will require further audit attention.

### **Outsourcing of the Audit Practice**

In July 2011, ministers at the Department for Communities and Local Government confirmed their preference for transferring the work of the Commission's in house audit practice to the private sector by outsourcing contracts from 2012/13. The Commission will award contracts to successful firms in spring 2012. New auditor appointments under the contracts will begin from 1 September 2012. The Commission envisages that most audit practice staff will transfer under the Transfer of Undertakings (Protection of Employees) Regulations 2006 on 31 October 2012. The Commission will put in place arrangements to ensure an efficient handover.

The Audit Commission has set the date of 31 October for the transfer as by then auditors should have completed all 2011/12 opinion audits. The HB subsidy submission deadline is 30 November and in recent years this deadline has not been achieved for St Edmundsbury. If 2011/12 audit work is not complete by 31 October the Commission is proposing to appoint the incoming 2012/13 auditor to complete outstanding work.

We will be meeting with officers shortly to discuss the way forwards for the 2011/12 HB audit.

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Table 4: **Claim between £125,000 and £500,000**

<b>Claim or return</b>	<b>Value of claim or return presented for certification (£)</b>	<b>Value of any amendments made</b>	<b>Qualification letter</b>
Disabled facilities	£270,000	None	No

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# Summary of recommendations

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This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
In advance of the 2011/12 HB audit, officers undertake up-front 40+ testing on all the areas highlighted in Table 3 to give assurance that issues raised in previous years have been addressed.	H	Yes	1 April 2012	Hayley Cocksedge

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# Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work

Table 6: Summary of certification fees

Claim or return	2010/11 fee £	2009/10 fee £	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	47,867 (estimate)	48,791	
National non-domestic rates return	730	3,066	Part A testing only in 2010/11. Efficiencies also gained from early handover of this claim to the joint audit team undertaking work at Anglia Revenues Partnership.
Single programme – Cattlemarket project	5,694	945	The 2009/10 fee reflects initial set up work only. The 2010/11 fee reflects audit testing across all years of the project (2006/07 – 2010/11)
Disabled facilities	310	0	Audit time charged to individual code for DFG in 2010/11. Last year it was included in general management time for grants.
<b>Total</b>	<b>54,601</b>	<b>52,802</b>	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



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