

The Members of the Performance and Audit Scrutiny Committee
Forest Heath District Council
District Offices
College Heath Road
Mildenhall
Suffolk
IP28 7EY

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Direct line: +44 1582 - 643476

Email: nharris2@uk.ey.com

Dear Members

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

We are pleased to report on our certification work. This report summarises the results of our work on Forest Heath 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 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 two claims and returns with a total value of £41.1 million. We issued two qualification letters on the claims and returns. Details of the qualification matters are included in section 2. Our certification work found errors, which the Council corrected. The amendments had a marginal impact on the grant due.

There were no recommendations in our 2011-12 certification report. However we have made a recommendation this year given the level of errors found and extra testing we performed. The recommendation is set out in section 4.

We met the deadline of 28 September 2013 for the national non-domestic rates return. We started our initial testing on the housing and council tax benefits subsidy claim in November 2013. We reported the initial results of our work to the Department on 29 November 2013. At that stage we had completed all initial testing and provided samples for extended testing for completion by Anglia Revenues Partnership on 15 November 2013. Following further discussions the Authority were able to isolate the errors covering four elements of extended testing. As at 29 November, the Authority had provided the results of the extended testing and following re-performance of this testing we issued the updated Qualification Letter to the Department on 20 December 2013.

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 are seeking an additional fee of £3,759 for the extra testing this year. This extra sum is subject to approval from officers, Members and the Audit Commission.

We welcome the opportunity to discuss the contents of this report with you at the May 2014 Performance and Audit Scrutiny Committee.

Yours faithfully

Neil A Harris
Audit Director
For and behalf of 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 two 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	£ 20,506,707
Limited or full review	Full review
Amended	Amended – subsidy decreased by £463 for errors found from the testing of rent allowances and council tax benefit.
Qualification letter	Yes
Fee - 2012-13	£17,000 (plus £3,759 for reviewing extended testing)
Fee - 2011-12 (actual)	£37,907
Recommendations from 2011-12:	Findings in 2012-13
There were no recommendations in the 2011-12 certification report.	Not applicable.

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 of forty cases) if initial testing of twenty cases identifies errors in the calculation of benefit or compilation of the claim. We found errors in four areas. The Council carried out extended testing by isolating the population for the errors across rent allowances and council tax benefits and testing all relevant cases.

Summary of errors

Description of Cell	Nature of error
Cell 094: Rent allowance total expenditure	Incorrect assessment of income based on employment agency.
Cell 102: Rent allowance not requiring referral to the rent officer.	Incorrect assessment of income regarding employment and support allowance.
Cell 114: Rent allowance overpaid (current year)	Misclassification of eligible overpayments between current and prior year.
Cell 144: Council tax benefit expenditure attracting full rate subsidy	Incorrect inclusion of carer's premium in calculations

We performed an element of re-performance across all four areas. Our testing found a further error in respect of overpaid rent allowances and the Council identified further errors regarding the application of the carer's premium.

The Council amended the claim for the errors on overpaid rent allowance and for the errors affecting council tax from testing of employment and support allowance and the carer's premium. The errors had a small net impact on the 2012-13 claim.

Our Qualification Letter reported that the errors regarding the employment agency had resulted in an underpayment. In addition, the Letter noted the impact of the errors found on rent allowances regarding employment and support allowance and the carer's premium, for which the Council had amended in 2013-14. The errors would have a small net impact on the 2013-14 claim.

As the errors were found in November 2013, the Council may have made similar errors in early part of the 2013-14 financial year. I have therefore recommended the need for early extended testing in these areas to identify the extent of similar errors that may have been made in 2013-14.

We also plan to perform our work on the 2013-14 claim earlier in the year to help alleviate workload pressures in November 2014. In addition, we plan to arrange a workshop with ARP and Council officers which will cover project management of the 2013-14 claim audit including confirming expectations and timescales.

Follow up to Housing and council tax benefits subsidy claim 2011-12

Our Qualification Letter submitted to the DWP on 28 November 2012, identified the Council had misclassified subsidy between technical excess council tax benefit and eligible excess benefit. We reported to the DWP that the Council were reviewing all relevant cases.

The DWP responded on 6 February 2013 requesting that the Authority complete this work. We undertook an element of re-performance on this work and reported the amendments to the DWP on 27 February 2013. The Authority had overstated eligible overpayments by £11,556. The certification fee charged to the Authority for this extra work was £2,154.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£ 20,609.553
Limited or full review	Full review (Part A and Part B testing)
Amended	No amendments made
Qualification letter	Yes
Fee - 2012-13	£450
Fee - 2011-12 (actual)	£3,103
Recommendations from 2011-12:	Findings in 2012-13
There were no recommendations in the 2011-12 certification report.	Not applicable.

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 requested no amendments to the national non-domestic rates return. We certified the amount payable to the pool with a qualification letter notifying that the return recorded the incorrect date for the latest information received from the Valuation Office. In addition, we reported that two figures on the return which must agree differed by a small amount.

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 Forest Heath District Council for 2012-13 was £17,450. The actual fee for 2012-13 is £21,209. The difference of £3,759 arises from the work undertaken to complete the extended testing for the Housing and council tax benefits subsidy claim. This extra sum of £3,759 is subject to approval from officers, Members and the Audit Commission. We will update the Performance and Audit Scrutiny Committee on the final fee at the next appropriate committee meeting.

The total of £17,450 plus £3,759, being £21,209 compares to an equivalent charge of £25,626 in 2011-12.

Claim or return	2011-12 Actual fee £	2011-12 2011-12 fee less 40% reduction £	2012-13 Indicative fee £	2012-13 Actual fee £
Housing and council tax benefits subsidy claim	37,907	22,744	17,000	20,759
National non-domestic rates return	3,103	1,862	450	450
Planning and reporting	1,700	1,020	0	0
Total	42,710	25,626	17,450	21,209

Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns in 2012-13.

2012-13 Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction applied to 2010-11 audit fees. However after allowing for the 40% reduction there are major changes in fees for the following return:

- ▶ **National non domestic return**
The indicative and actual scale fees for 2012-13 are lower than 2011-12. However, the actual fee for 2011-12 arose from testing both Part A and Part B in line with certification instructions. The 2012-13 fee was based on 2010-11 fees where we were required to test Part A only. As 2012-13 was the first year of auditing the national non domestic rates return we undertook both part A and part B testing again in line with EY procedures. However, the Audit Commission would not allow an extra fee for this work in 2012-13 and hence the Council has been charged the scale fee of £450 in 2012-13.

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 £23,700. 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	Agreed	July/ August 2014	Paul Corney
Discuss the need for early extended testing to identify the extent of similar errors arising in 2012/13 that may have been made in 2013/14.				

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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