



Annual Certification Report (2011/12)

Report to those charged with governance

Date: February 2013

Ernst & Young LLP

 **ERNST & YOUNG**

The Members of the Audit Committee

St Edmundsbury Borough Council
West Suffolk House
Western Way
Bury St Edmunds
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28 February 2013

Dear Member

Annual Certification Report (2011/12)

We are pleased to attach the annual certification report for the forthcoming meeting of the Audit Committee. This report summarises the results of certification work that has been undertaken by Audit Commission staff to 31 October 2012 and Ernst & Young staff from 1 November 2012 at St Edmundsbury Borough Council on 2011/12 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. Often these grant-paying bodies require certification from an appropriately qualified auditor of the claims and returns submitted to them.

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.

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 the appointed auditors of St Edmundsbury District Council set out the work the auditor must undertake before issuing our certificate. The auditor certifies grants and claims as they arise throughout the year to meet the audited claim/return submission deadlines set by the grant-paying bodies.

Statement of Responsibilities of Auditors and Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('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 the Audit Committee, and is prepared for the sole use of the audited body.

Following the appointment of Ernst & Young as auditor for the year ended 31 March 2013 we have been requested to prepare this Annual Certification Report in respect of the year 2011/12.

The certification work reported on the National Non-Domestic Rating Return was performed by Audit Commission staff before 31 October 2012. This work was therefore not under the direction and supervision of Ernst & Young and accordingly we take no responsibility to the Council nor to any third party for the work undertaken.

The certificate on the Housing and Council Tax Benefit Scheme was issued by Ernst & Young.

Results of certification work

During the period July to October 2012 the Audit Commission's Audit Practice certified one return with a total value of £41.640m. This work was completed prior to Ernst & Young being appointed auditor.

From the period 1 November to 30 November 2012, Ernst & Young certified one claim with a total value of £33.145m.

Of the two claims certified, both were qualified and amended. Details of the qualification matters are included in section 2. The amendments did affect the grant due to the Council.

We submitted the certified claims/returns by the relevant deadlines. However, our qualification letter covering the Housing and Council Tax Benefit Scheme highlighted that for.

- Cell 011: Non-HRA Rent Rebate we received relevant information requested on 28 November and we were undertaking re-performance work at the time of submission on 30 November 2012; and
- Cell 214: Modified Schemes. Anglia Revenue Partnerships were continuing to work on responses to audit queries.

Officers provided the information on Modified Schemes in the week of 3 December 2012. We continued our work on these two cells. The findings from our work will form the basis of any further reporting to the Department of Work and Pensions (DWP). Fees for certification work are summarised in appendix A.

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

Yours faithfully
For and on behalf of Ernst & Young LLP

A handwritten signature in black ink, appearing to be 'Andy Clewer', with a long horizontal line extending to the right.

Andy Clewer
Partner
Ernst & Young LLP
United Kingdom
Enc.

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1. Summary of 2011/12 Certification Work

Claim or return	Certificate Instruction (CI) Reference	2011/12 Claim Value £	Qualification (Q) Amendment (A) Neither (-)	Reason for issue, and financial effect.
Housing and council tax benefit scheme	BEN01	33, 145,443	Q and A	<p>Amendments made following the audit of non-hra rent rebates, rent allowances, and modified schemes.</p> <p>The grant due to the Council decreased by £210.</p>
National Non- Domestic Rates Return	NNDR 3	41,639,819	Q	<p>As part of the statutory audit of the financial statements, the Audit Commission were unable to reconcile the entries in the Collection Fund to the NNDR3 Return presented for audit. Management provided revised audit trails to support the transfer of balances from the Northgate System to the Academy System, resulting in amendments to 2011/12 sums covering Gross Rates Payable, Transitional Relief, Small Business Rate Relief, Empty Premises and Interest on Repayments.</p> <p>Together with the amendment for an incorrect calculation for Losses in Collection, the impact is to reduce the Council's Contribution to the Pool by £1,624,921 from £43.264,740m to £41.639,819</p>

2. Qualifications in respect of 2011/12 certification work

The certificate that we issue to the grant-paying body is qualified where there is disagreement or uncertainty over an item or items in the claim/return, or St Edmundsbury Borough Council has not complied with the scheme terms and conditions.

I set out in the table below details of the qualifications made during 2011/12 for National Non-Domestic Rates. Given the number of qualifications for Housing and council tax benefit scheme, I have provided details in separate tables.

Claim/Return	Issue and risk arising	Agreed action plan
National Non-Domestic Rates	<p>Transitional Relief My testing of Transitional Relief calculations found that for one property, the Authority had used an incorrect fraction.</p>	<p>Management asked Capita to investigate and found 171 accounts affected with overstatements of £1712.38 and understatements of £717.43. Management have decided to amend the 2012/13 Return.</p>
	<p>Empty Properties The Audit Commission's testing of reductions for empty properties (£1.157m) found the Authority could provide evidence through inspections, investigation letters and representations to have assured itself that properties were empty. My work did note, however, across the four authorities hosted by ARP, that Internal Audit reported ARP had not carried out a systematic empty property inspection in 2011/12</p>	<p>During 2012/13, ARP is addressing Internal Audit's recommendations on visiting empty properties. This includes an automatic generated report highlighting properties that are empty and need inspecting.</p>

Housing Benefits

The HB subsidy claim is a significant and highly complex grant claim involving a large volume of transactions. Nationally, the Audit Commission has reported that the HB subsidy claim has the highest number and proportion of cases with qualification letters.

As in previous years, we issued a qualification letter to the DWP on the 2011/12 HB subsidy claim.

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 case 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. We also identified matters arising from our 2010/11 audit which required further follow up work in 2011/12.

This resulted in further testing covering eight additional samples of (at least) 40 cases as follows:

Cells where an extra 40 cases were selected for testing or 100 % extra testing was undertaken		
Cell	Description	Nature of errors
11	Non-HRA total expenditure	2010/11 errors included incorrect income assessment, liability recording and classification of expenditure analysis. Testing of all 70 cases identified 23 misclassification errors of the underlying analysis and 4 cases where benefit was underpaid.
94	Rent allowances total expenditure	2010/11 errors included incorrect calculation and assessment of income. Testing of the initial 20 and extra 40 samples identified one case where benefit was underpaid and one incorrect calculation of income.
114	Rent allowances eligible overpayments expenditure	2010/11 errors included the misclassification of overpayments. Testing of the initial 20 and extra 40 samples identified 1 case where benefit was misclassified.

Cells where an extra 40 cases were selected for testing or 100 % extra testing was undertaken

Cell	Description	Nature of errors
142	Council tax benefit total expenditure	<p>2010/11 errors included incorrect calculation and assessment of income and incorrect awarding of the single person discount.</p> <p>Testing of the initial 20 and extra 40 samples identified 3 case where benefit was underpaid, 6 cases where income was incorrectly calculated and assessed and 19 cases where the single person discount had been awarded incorrectly.</p>
148	Council tax benefit eligible excess benefit expenditure	<p>2010/11 errors included incorrect misclassification of overpayments.</p> <p>Testing of the initial 20 and extra 40 samples did not reveal any errors in 2011/12.</p>
214/225a	Council tax benefit modified schemes expenditure	<p>2010/11 errors included the incorrect assessment of income.</p> <p>Testing of all 33 cases identified 2 cases where the war pension was not up-rated in 2011/12 when such information had been received and 3 cases where the pension value was incorrectly entered into the benefit assessment</p>
214/225d	Rent allowance modified schemes expenditure	<p>2010/11 errors included the duplication of a war pension spouse allowance and the incorrect assessment of income.</p> <p>Testing of all 21 cases identified one case where the value of an ordinary pension was incorrectly entered into the benefit assessment and one case where a War Pension Carers allowance which should be fully disregarded was incorrectly entered into the assessment as a local scheme War Pension.</p>

The work on Non-HRA Rent Rebates and modified schemes will form the basis of any further reporting to the Department of Work and Pensions and inform the 2012/13 claim. 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 we reported the matters in a qualification letter that accompanied the certified grant claim to the DWP.

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. These included system errors resulting from rounding errors from Northgate monthly payments, rounding errors between Northgate and Academy arising from the system transfer, system misclassification errors arising from the transfer of systems, and manual adjustments omitted from the claim submitted to the department.

We recommend that in advance of the 2012/13 HB audit, officers undertake up-front 40+ testing, or small population testing in all the areas highlighted in the following table. We have discussed with officers at Anglia Revenues Partnership who have agreed to address for 2012/13.

Cells where ARP should undertake extra testing of 40 cases, or on small populations, 100% extra testing for 2012/13

Cell	Description	Work to undertake
11	Non-HRA total expenditure	100% sample based on errors of income assessment, LHA rate application and classification of expenditure analysis
94	Rent allowances total expenditure	40+ testing of income assessment
114	Rent allowances eligible overpayments expenditure	40+ testing of the classification of overpayments
142	Council tax benefits total expenditure	40+ testing of income assessment
142	Council tax benefits total expenditure	40+ testing of single person discount awards
214/225a	Council tax benefit modified schemes expenditure	100% sample based on errors of income assessment
214/225d	Rent allowance modified schemes expenditure.	100% sample based on errors of income assessment

In 2011/12, errors were found at other councils whereby claims for council tax benefit misclassified eligible excess benefit and technical error excess council tax. As this error could affect council tax benefit claims processed by ARP, officers are therefore reviewing all cases where council tax liability ceased in the current year to correct any similar errors within the 2012/13 claim.

3. Progress on previous auditor recommendations

This section summarises the progress made in implementing recommendations made in the previous year arising from certification work

Agreed action	Deadline	Current status
In advance of the 2011/12 HB audit, officers undertake up-front 40+ testing on all the areas highlighted in to give assurance that issues raised in previous years have been addressed.	1 April 2012	Implemented ARP undertook the testing required.

Appendix A Certification Fees

Claim/Return	2011/12 Actual £	2010/11 Actual £	Reasons for changes in certification fees
Housing and council tax benefit scheme	76,276	48,400	Following the change in system from Northgate to Academy, extra audit work was undertaken to reconcile the Housing Benefits claim between the two systems and resolving and reporting on the errors found. In addition, extra audit work arose from re-performing the work of ARP across Non-HRA Rent Rebates, Council Tax Rent Allowances and Modified Schemes. Errors found through this process resulted in increased audit work both in reaching judgements to resolve the errors and report the results of the work.
National non domestic rates return	6,573	730	The Audit Commission charged extra fees for the audit of the NNDR return as the Audit Commission's grant instructions require a more comprehensive audit every third year of audit for this return. The need for the extra charge was set out in the Audit Commission's, 2010/11 report We will consider whether a further comprehensive review is required this year.
Single Programme – Cattlemarket Project	0	5,694	2010/11 was the last year the Department for Communities and Local Government required an audit of the Cattlemarket project.
Disabled facilities	0	310	2010/11 was the last year the DCLG required an audit of the disabled Facilities grant.
Planning and Reporting	1,700	0	Last year time for reporting was included within the cost of the audit of the claims and returns.
Total	84,549	55,134	

Note: Extra audit fees will be invoiced separately for auditing the Council's response to any work required by the DWP in respect of the 2011/12 housing and council tax benefit scheme.

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