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Dear Rachael,

Annual Certification Report and Certification Fees

I refer to our recent discussion of the annual certification report issued to Members dated 28 February 2013 in particular regarding the certification fees.

You asked for further details to support the increase in certification fees as set out on page 7 of the report, in particular covering the increase for the certification of the Housing and Council Tax Benefit Claim (the Claim) from £48,400 to £76,276. This represents an increase of some £28,000.

This letter provides further details for the increase. I also set out the changes in certification fee arrangements for 2012/13 and the new arrangements for reporting audit and certification fee increases to the Council as they arise. I also indicate the actions being taken by Anglia Revenues Partnership (ARP) to address the issues raised in the certification report and reduce the number of errors reported on the Claim.

The reason for the increase of £28,000 in certification fees in 2011/12 was extra audit work arising as follows.

Reason for the Increase in 2011/12 Housing Benefits and Council Tax Benefits Certification Fees	Estimate Increase
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The change in systems used to compile the Claim from Northgate to Academy in July 2011.	£8,000
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The scale and variety of errors found across the range of the 2011/12 Claim, leading to extra testing to verify the work performed by ARP. In addition, the costs of the audit work undertaken on the single person discount for Council Tax Benefit purposes, are included in the certification fee for 2011/12. In 2010/11, ARP could not initially provide the information needed to enable your former auditors the Audit Commission to undertake extra testing on this item. The costs of this work were not included in the 2010/11 certification fee.	£13,000
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The costs of some the audit work in October 2012 to complete the testing of single person discount for Council Tax Benefit purposes for 2010/11 were coded to 2011/12 and included in the 2011/12 certification fees.	£7,000
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Total Increase in Certification Fees	£28,000
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The following paragraphs provide further details on these issues to explain the variances between years.

The impact of the change in Housing Benefit Systems

In July 2011, The Council changed its Housing Benefits system from Northgate to Academy. The change took place part-way through the year which meant ARP based its claim upon information in two systems. Extra work arose from this process as follows:

- reviewing the process for converting the transfer and conversion of subsidy data from the former system to the new system. This involved reviewing the reconciliation of the closing and opening housing benefits systems to seek assurances over the conversion exercise;
- reviewing audit trails to ensure coverage between the Northgate system and the Academy system;
- applying separate tests for relevant Housing Benefits Modules for example covering parameters across the two systems; and
- identifying, discussing and documenting errors found from audit testing arising from the conversion process, for inclusion in the Qualification Letter to the Department for Work and Pensions (DWP).

Such an extra cost is not unusual where system changes occur mid-year. From my experience, the impact of this increase on fees for the Housing Benefits claim is much less than at other authorities where system conversion has taken place. The cost of the extra work is estimated at £8,000.

The impact of the scale and variety of the errors found and the inclusion of the full costs of the 2011/12 audit work on the Council Tax benefits for persons in receipt of the single person discount in the 2011/12 certification fee.

The second reason for the extra fee in 2011/12 is the scale and variety of the errors found across the Claim. These errors are significantly higher than those occurring for other claims operated by ARP. The errors found impacted across all areas of the Claim including both rent allowances and council tax. Errors found in the testing of Non-Housing Revenue Account Rent Rebates and Modified Schemes led to ARP testing the full populations of the relevant cells. Our subsequent testing in both areas found errors. This meant that ARP undertook further work and we undertook further testing of extra samples to enable us to rely on the work performed by ARP.

There were also a high number of errors (19 from ARP's completion of extra testing of 40 cases) from the testing of Council Tax benefits for persons in receipt of the single person discount (SPD). For 2011/12, we completed work on SPDs by the time we certified the Claim on 30 November 2012 and included the costs of this work in the 2011/12 certification fee. At the time your former auditors, the Audit Commission, submitted the 2010/11 Claim to the DWP on 30 January 2012, they had not undertaken any extra work on the single person discount. This was because at that time ARP had initially not been able to identify a sub-population of single claimants not in receipt of the SPD to enable testing of the required 40 cases. As such the costs associated with this work were not included in the 2010/11 certification fee.

Extra audit time is taken in both identifying and resolving errors. Errors result in officers undertaking further work and then extra audit time to test this work, document and summarise the outcome in preparation for the qualification letter to the DWP. The estimated cost of this extra testing across the Claim, including the testing on SPDs in 2011/12, is an estimated additional certification fee of £13,000.

Costs for following up the 2010/11 audit work on the Council Tax benefits for persons in receipt of the single person discount being included in the 2011/12 certification fee.

The third reason for the increase in certification fees is because the costs of following up the 2010/11 audit work requested on SPDs are included in the 2011/12 certification fee. Following the completion of 2010/11 work on SPDs by ARP, your previous auditors, the Audit Commission completed part of the follow up testing in October 2012. The Audit Commission charged this 2010/11 work to 2011/12 and the sum is included in the total 2011/12 certification fee of £76,276. The cost of this work is estimated at £7,000.

New arrangements for reporting audit and certification fee increases to the Council for 2012/13

As in previous years, in 2011/12 the charge for certification work is on a per diem basis. Although a budget is set, as the work needs to progress to a conclusion, certification fees are based on the work completed to certify the Claim. Although the Audit Manager overseeing the claims across ARP communicated the budget and extra work being undertaken to the relevant Audit Managers for the ARP audits, several changes in Audit Managers at St Edmundsbury Borough Council between August and November 2012 meant that the likely increase in certification fees were not communicated to the Authority.

For 2012/13, the Audit Commission has specified a scale fee for the certification of claims. This is based at 40% of the 2010/11 certification fee charged for grant claims work by the Audit Commission covering the Housing Benefits and Council Tax Benefits Claim and National Non-Domestic Rating (NNDR) Return. For 2010/11 this amounted to £49,130 and, with a 40% reduction in certification fees, the Audit Commission has set the scale fee for St Edmundsbury Borough Council at £29,500 for 2012/13.

Where audit and certification fees are likely to increase above this sum, we will need to report this to the Council in advance, as any variation to the scale fee needs to be agreed with the Audit Commission. This process will ensure that both the Authority and ARP are aware of any increases in audit and certification fees as they occur.

Variations to scale fees are likely for any errors found when auditing the Housing Benefits and Council Tax Benefits Claim and NNDR Return. In addition, in 2010/11 the cost of the NNDR return was based on Part A testing only. It is likely, as this is the first year of work under Ernst and Young, that both Part A and Part B testing will be required in 2012/13 and an extra fee will be required for part B testing this year. I am currently awaiting guidance on this and the likely sample sizes and will advise officers once agreed.

Actions being taken by Anglia Revenues Partnership to address the issues raised in the certification report

Our 2011/12 certification report indicated the areas where ARP could undertake early testing for errors expected in the 2012/13 Housing Benefits and Council Tax Benefits Claim in advance of our audit. Officers have reviewed the errors and believe that some arose from the application of the former Northgate systems and should not re-occur at St Edmundsbury Borough Council following a full year of applying the Academy system in 2012/13. For other errors, officers are increasing quality review assessments of Non-HRA Rent Rebates and Modified schemes. In addition, ARP are testing all cases that may arise in classifying overpayments between council tax eligible expenditure and technical error, following misclassifications found at audit at other ARP sites in 2011/12. In this way ARP are hoping to reduce the impact of errors on the certification fee for 2012/13.

I trust this letter explains the reasons for the fee increase between 2010/11 and 2011/12 for the Housing Benefits and Council Tax Benefits Claim, the change in the basis for the fee for 2012/13, which should ensure that officers are aware of the likelihood of extra fees as they arise, and the actions taken by ARP to reduce the risk of error in 2012/13.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'Neil A Harris', written in a cursive style.

Neil A Harris, Audit Director
For and on behalf of Ernst & Young LLP
Ernst & Young LLP
United Kingdom