



St Edmundsbury
BOROUGH COUNCIL

F10

Performance and Audit Scrutiny Committee 21 May 2014

Ernst & Young – Annual Certification Report 2012/13

1. Summary and reasons for recommendation

- 1.1 To update Members on the outcome of the annual audit of grant claims by Ernst & Young (our external auditors) as detailed in their Annual Certification Report for 2012/13, attached at **Appendix A**.

2. Recommendation

- 2.1 That Members **note** the Annual Certification Report for 2012/13.

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3. Strategic priorities

- 3.1 This report and attached audit plan supports all of the Council's priorities within the West Suffolk Strategic Plan 2014-16.

4. Key issues

- 4.1 Ernst & Young (EY) has issued at **Appendix A**, an Annual Report on the Certification of Claims and Returns for 2012/13. This report summarises the results of the certification work that has been undertaken by EY staff as part of the annual audit of grant claims to government departments.
- 4.2 The report at **Appendix A** includes key messages arising from the assessment of the arrangements for preparing claims and returns and information on claims that were qualified.
- 4.3 External Audit is required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to St Edmundsbury Borough Council.
- 4.4 Funding from government grant-paying departments is an important income stream for the Council which has to put in place procedures to ensure that it has met the conditions attached to these grants. The summary of work on the 2012/13 grant claims is shown on page 1 of **Appendix A**.
- 4.5 For the financial year 2012/13, external audit certified two claims with a total value of £78 million. These were housing benefit and council tax benefits (£34.9m) and national non domestic rates (£43.1m).
- 4.6 Only one amendment was required to the two claims and returns which the Council presented for certification. This related to the housing and council tax benefit claim for £11,648 in respect of amendments made following the audit of non-housing revenue account rebates, rent allowances and modification schemes.
- 4.7 The relevant officers of the Council and Anglia Revenues Partnership (ARP) have agreed the qualifications in respect of the 2012/13 certification work, as detailed on pages 2-4 of **Appendix A**. ARP has taken action to address the issues for 2013/14.
- 4.8 Ernst & Young have made no recommendations to Members as a result of the audit.

5. Other options considered

- 5.1 None applicable.

6. Community impact

- 6.1 **Crime and disorder impact** (*including Section 17 of the Crime and Disorder Act 1998*)

- 6.1.1 None

6.2 **Diversity and equality impact** *(including the findings of the Equality Impact Assessment)*

6.2.1 None

6.3 **Sustainability impact** *(including completing a Sustainability Impact Assessment)*

6.3.1 None

6.4 **Other impact** *(any other impacts affecting this report)*

6.4.1 None

7. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

7.1 This report has been prepared in consultation with ARP, the Finance Team, Joint Leadership Team and the Portfolio Holder for Performance and Resources.

8. Financial and resource implications *(including asset management implications)*

8.1 The proposed 2012/13 fee of £31,810 can be funded within the Councils approved budget for 2012/13.

8.2 **Appendix B** provides Members with a further explanation to the 2012/13 fee in comparison to the amount charged for the 2011/12 grant claim work.

9. Risk/opportunity assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

9.1 None

10. Legal and policy implications

10.1 External audit is a statutory function.

11. Wards affected

11.1 All.

12. Background papers

12.1 None

13. Documents attached

13.1 Appendix A – Ernst & Young Annual Certification Report 2012/13

13.2 Appendix B – Ernst & Young letter on 2012/13 fee level



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26 February 2013

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Dear Members

Certification of claims and returns annual report 2012-13
St Edmundsbury Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on St Edmundsbury Borough 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.

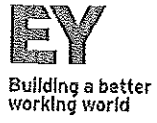
We checked and certified two claims and returns with a total value of £78 million. We issued two qualification letters on the claims and returns. Details of the qualification matters are included in section 2. Our certification work found errors, which the Council corrected. The amendments had a marginal impact on the grant due.

There were no recommendations in our 2011-12 certification report. However we have made a further 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 early October 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 between 15 and 28 November 2013.

The Authority undertook 100% testing relating to Non-HRA rent rebates and modified schemes covering three elements of extended testing and undertook an extended sample of 40 cases for a further error on modified schemes. The Authority provided the results of the testing in December 2013. 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 £2,310 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
Enc

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2012-13 certification fees

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	£ 34,949,710
Limited or full review	Full review
Amended	Amended - subsidy decreased by £11,648 for errors found from the testing of Non HRA rent rebates and modified schemes.
Qualification letter	Yes
Fee - 2012-13	£29,060 (plus £2,310 for reviewing extended testing)
Fee - 2011-12 (actual)	£76,276
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 three areas. The Council carried out extended testing by undertaking 100% testing for all Non-HRA rent rebates and modified schemes cases and extrapolating for an error regarding council tax benefit.

Summary of errors

Description of Cell	Nature of error
Cell 011: Non-HRA rent Rebate total expenditure	Misclassification of underlying analysis (cells 12 and 13) attracting wither zero or 100% subsidy
Cell 147: Council tax benefit overpaid (current year)	Misclassification of local authority error and eligible current year overpayments (Cells 147 and 148).
Cell 225: Modified schemes	Misclassification of eligible overpayments between current and prior year.

In addition, the Authority made amendments to overpayment cells after the Authority had submitted the claim on 29 April 2013. These covered Cells 147 to 149, including technical excess overpayments.

We performed an element of re-performance across all four areas. The Council's extended testing identified further errors regarding modified schemes.



Our Qualification Letter reported on the extrapolation for the misclassification of local authority error and eligible current year council tax benefit overpayments.

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 undertaken extra work to address errors regarding Non-HRA rent rebates and modified schemes, but that this work and its certification was still in progress at the time of submission of the claim.

The DWP responded on 5 August 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 31 January 2014. The certification fee to be charged to the Authority for this extra work is £4,567. This fee is subject to agreement by the Audit Commission.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£ 43,059,960
Limited or full review	Full review (Part A and Part B testing)
Amended	No amendments made
Qualification letter	Yes
Fee - 2012-13	£440
Fee - 2011-12 (actual)	£6,573
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 a system error, arising from the system conversion in 2011-12, causing incorrect transitional relief calculations to the value of £351.



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 St Edmundsbury Borough Council for 2012-13 was £29,500. The actual fee for 2012-13 is £31,810. The difference of £2,310 arises from the work undertaken to complete the extended testing for the Housing and council tax benefits subsidy claim. This extra sum of £2,310 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 £29,500 plus £2,310, being £31,810 compares to an equivalent charge of £50,730 in 2011-12.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee £	2011-12 fee less 40% reduction £	Indicative fee £	Actual fee £
Housing and council tax benefits subsidy claim	76,276	45,766	29,060	31,370
National non-domestic rates return	6,573	3,944	440	440
Planning and reporting	1,700	1,020	0	0
Total	84,549	50,730	29,500	31,810

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:

- ▶ **Housing and council tax benefits subsidy claim**
The indicative scale fee and actual fees for 2012-13 are much lower than 2011-12. This is due to eight extended samples of additional and complex testing undertaken in 2011-12 against the four extended samples completed in 2012-13. The cost of the extended testing in 2012-13 amounts to £2,310. This sum is subject to approval from officers, Members and the Audit Commission.
- ▶ **National non domestic rates return**
The indicative and actual scale fees for 2012-13 are lower than 2011-12. However, the actual fee for 2011-12 arose due to 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 £440 in 2012-13.

Looking forward

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 £46,700. 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.

Summary of recommendations

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
<p>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.</p>				

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Appendix B



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8 April 2014

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Dear Rachael

St Edmundsbury Borough Council – 2012/13 Housing and Council Tax Subsidy Benefit certification fee

We issued our formal 'Certification of grants and returns annual report' on the 26 February 2014, to report the outcome from our audit work on your grant claims. Within this report, we set out the final estimated audit fees in respect of those claims, subject to any variations to be agreed by the Audit Commission.

The Audit Commission has now formally approved the audit scale fee variation of £2,310 in relation to the Housing and Council Tax Subsidy Benefit claim.

As a result, we need to confirm the reported scale fees with our certification of grants and returns annual report, to report accurately the final fee position. Rather than re-issue the report, which has been through the committee cycle, we summarise the impact of this change below.

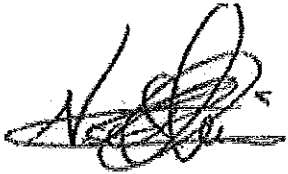
Claim or return	2011-12	2012-13	2012-13
	Actual fee £	Indicative fee £	Actual fee (revised and final) £
Housing and council tax benefits subsidy claim	76,276	29,060	31,370
National non-domestic rates return	6,573	440	440
Planning and reporting *	1,700	0	0
Total	84,549	29,500	31,810

*Note *: Fees for planning and reporting in 2012/13 have been allocated directly to the claims and returns.*

I would be grateful if you could arrange for this letter to be included as part of the next Performance and Audit Scrutiny Committee agenda, for completeness for Members.

We will make the necessary arrangements to invoice the additional £2,310 audit fee to you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neil Harris', with a stylized flourish at the end.

Neil Harris
Director
Ernst & Young LLP
United Kingdom