



Annual Certification Report (2011/12)

Report to those charged with governance

Date: December 2012

Ernst & Young LLP

The Members of the Audit Committee

Central Bedfordshire Council
Priory House
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December 2012

Dear Members

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 (until 31 October 2012) and Ernst & Young (completing the work on the Housing Benefit and Council Tax claim) at Central Bedfordshire 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 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 appointed auditors set out the work the auditor must undertake before issuing a certificate. Auditors will certify grants and claims as they arise throughout the year to meet 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. However most of the certification work reported on herein was performed by Audit Commission staff prior to 31 October and therefore not under the direction and supervision of Ernst & Young. Accordingly, we take no responsibility to the Council nor to any third party for the work undertaken. The Housing Benefit and Council Tax Benefit claim certificate and qualification letter were issued, on 29 November 2012, by Ernst & Young.

Results of certification work

During the period June 2012 to October 2012 the Audit Commission's Audit Practice certified 4 claims and returns with a total value of £96,592,407. This work was completed prior to Ernst & Young being appointed auditor. The Housing Benefit and Council Tax Benefit claim (benefits claim), with a value of £75,050,841, was certified by Ernst & Young on 29th November 2012.

Of the claims and returns certified, the Teachers Pensions return and the benefits claim were amended and qualified. The amendments to the Teachers Pensions return increased the total value of contributions paid to the Teachers Pensions Authority by £270. Details of the qualification matters are included in section 2.

As in previous years the main area of grant certification work in terms of time and fees was on the benefits claim. Due to the number of errors found in previous years a large volume of additional testing was required. In addition to our initial testing of sixty cases, covering Rent Allowances, Rent Rebates and Council Tax Benefit, benefits staff carried out additional testing of 40 cases (40+ testing) for each cell where errors were found last year and where errors were found in this year's testing of the headline cells. This year there were 19 cells on which 40+ testing was required, this is a reduction on 2010/11 when additional testing was required on 21 cells.

The audit of the 2011/12 benefits claim again found a number of errors. However the errors found, as a proportion of cases tested, fell from 23.6% in 2010/11 to 18.6% in 2011/12. In accordance with the methodology agreed between the Department of Works and Pensions (DWP) and the Audit Commission the errors have been extrapolated and reported in a qualification letter to DWP. The Council is carrying out additional testing on the cells where errors were found to try and reduce the extrapolated errors as the DWP will seek to claw back subsidy paid to the Council based on these extrapolations.

The 2010/11 benefits claim was also subject to a lengthy qualification letter. In response to this qualification letter, and further work carried out by the Council, the DWP wrote to Central Bedfordshire in August 2012 requesting that the Council and the auditor carry out additional work and provide additional assurances with a view to reducing the potential value of benefit to be clawed back. This additional work was completed and a response sent to DWP on 19th October 2012. The fee for this additional work was £9,400.

The actual fee for certification work of £89,206 (including the 2010/11 follow up fee) compares to the indicative fee of £85,253. The Council has received another DWP letter, dated 30 November 2012, on the 2010/11 claim requiring further information on extrapolations reported in the qualification letter. We expect to be able to complete this work and respond by 31 December at an additional fee of £2000.

Last year we recommended that the Council should continue to prioritise staff training and quality control in the Revenues and Benefits team to reduce the number of errors in the benefits claim. While the number of errors found has fallen our testing and the testing carried out by benefits staff has continued to find a large number of errors in the misclassification of over payments and cases where benefit had been assessed incorrectly. The volume of errors has a significant impact on the Council both in terms of

the potential claw back from the DWP and on the service provided to claimants. The Council should revisit the actions that it has already taken to reduce errors in benefit assessment and classification and where necessary strengthen the quality control processes that have been implemented. .

Deadlines for submission of certified claims and returns were met. However the benefits claim originally submitted for certification work by the deadline of 30th April had to be amended before certification work on the claim could start. Problems with the CIVICA software meant that detailed cell listings which agreed to the claim could not be provided to enable us to select our samples for testing. A revised claim was submitted for certification on 31 July 2012.

Fees for certification work are summarised in appendix A.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting scheduled on 7th January 2013.

Yours faithfully
For and on behalf of Ernst & Young LLP

Mick West Director
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 Benefit and Council Tax Benefit scheme | BEN01 | 75,050,841 | Q A | Where results of the testing allowed us to conclude that an adjustment to a cell would result in it being fairly stated the claim was amended. The amendments increased the amount payable to the Council by £14,165 In accordance with the methodology agreed between the Department of Works and Pensions (DWP) and the Audit Commission the errors found in our testing and the 40+ testing carried out by the Council have been extrapolated and reported in a qualification letter to DWP. The Council is carrying out additional testing on these cells to try and reduce the extrapolated errors as the DWP will seek to claw back subsidy paid to the Council based on these extrapolations. |
| Teachers Pensions | PEN05 | 13,432,007 | Q A | |
| HRA Subsidy | HOU01 | 9,831,364 | - | |
| National non-domestic rates return | LA01 | 72,387,918 | - | |

| | | | |
|-------------------------------------|-------|---------|---|
| Pooling of housing capital receipts | CFB06 | 941,118 | - |
|-------------------------------------|-------|---------|---|

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 the Council has not complied with the scheme terms and conditions. Details of the qualifications made during 2011/12 are provided below.

| Claim/Return | Issue and risk arising | Agreed action plan |
|---|--|--|
| Teachers Pensions | <p>As noted in the previous year, there were weaknesses in the arrangements to ensure the completeness and accuracy of information provided to the Council by other payroll providers during 2011/12.</p> <p>No adjustments have been made to the claim in respect of this matter.</p> | <p>The Council drew up an action plan to address the issues raised in the 2010/11 qualification letter and new checks and procedures have been put in place from March 2012. This should ensure that adequate arrangements are in place for 2012/13.</p> |
| Housing Benefit and Council Tax Benefit | <p>Due to the number of errors found in previous years a large volume of additional testing was required. In addition to our testing of 20 cases in each of the three headline cells for rent rebates, rent allowances and council tax benefit, your officers carried out additional testing of 40 cases (40+ testing) for each cell where errors were found last year (18 cells) and where errors have been found in this year's initial testing. Therefore there were 19 cells on which 40+ testing was required (21 cells in 2010/11).</p> <p>Errors were found in the initial testing and in each of the 19 cells that were subject to 40+ testing. We are required to report the nature of the errors found and</p> | <p>As noted above the Council is carrying out additional testing to try and reduce the extrapolated errors reported to DWP.</p> |

extrapolate the value across the cell population. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit paid.

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 |
|---|-------------|---|
| Continue to prioritise staff training and quality control in the Revenues and Benefits team to reduce the number of errors in the Housing Benefit and Council Tax Benefit claim. | Implemented | All benefits staff have received training and supporting training documents in respect of specific areas of claim processing. The Council has introduced extensive internal quality control measures to address the issues arising from the 2010/11 claim, however these new measure will not have been in place for the first half of the year. |
| Strengthen the arrangements in place to ensure that adequate supporting documentation is retained to support the expenditure included in grant claims | 01/04/12 | Financial processes have been amended to include a requirement to ask specifically if any of the figures provided for grant claim submission are estimates, and if so on what basis the estimate is made. The Financial Control is now responsible for ensuring that any estimated figures have a reasonable basis for calculation. |
| Ensure that authorising officers are reminded of the importance of agreeing CHAPS payments to supporting payroll reports prior to authorisation. | 01/04/12 | A reminder that it is essential that documentation which fully supports the amount of funds requested for any CHAPS payment is essential before authorisation has been sent to all CHAPS authorisers. |
| Introduce arrangements to confirm the adequacy of the data provided for the Teachers Pensions return by schools that do not use the Authority's payroll system. In particular to confirm that contributions have been correctly deducted and remitted to Teachers Pensions. | 01/04/12 | As noted in section 2 above the Council drew up an action plan to address the issues raised in the 2010/11 qualification letter and new checks and procedures have been put in place from March 2012. This should ensure that adequate arrangements are in place for 2012/13. Where payroll reports are received from external providers a quality assurance (QA) process has been put in place to review the information provided against standard percentages. Any data that fails the QA checks will be queried with the supplier. |

Progress on previous auditor recommendations

Strengthen the arrangements in place to review claims prior to submission for certification to ensure that they have been completed correctly and agree to supporting documentation.

Implemented

Checks have been put in place to review claims at various levels in the organisation prior to submission to grant authorities and subsequently for certification.

Appendix A Certification Fees

| Claim/Return | 2011/12 Actual £ | 2010/11 Actual £ | Comments |
|--|------------------------|------------------------|---|
| Housing Benefit and Council Tax Benefit scheme | 76,765 | 61,751 | The 2011/12 fee includes £9,400 in respect of 2010/11 follow up work. |
| Teachers Pensions | 8,323 | 8,283 | none |
| HRA Subsidy | 1,614 | 1,091 | none |
| National Non-domestic Rates return | 1,546 | 3,477 | Decrease in fee because reliance placed on control environment this year. |
| Pooling of Housing Capital Receipts return | 958 | 901 | none |
| Sure Start claim | 0 | 3,545 | No requirement to certify in 2011/12 |
| Housing Finance Base Data return | 0 | 2,751 | No requirement to certify in 2011/12 |

Certification Fees

| | | | |
|-------------------------------|---------------|---------------|---------------------------------------|
| Disabled Facilities Grant | 0 | 1,545 | No requirement to certify in 2011/12 |
| Single Programme (EEDA) Grant | 0 | 901 | No requirement to certify in 2011/12. |
| Total | 89,206 | 84,245 | |

The indicative fee for claims work in 2011/12, as set out in the Audit Commission's fee letter issued in April 2011, was £85,232. We have agreed with the Chief Finance Officer that the additional work required on the 2010/11 Housing Benefits and Council tax claim will be funded, where possible, from the indicative fees for 2011/12 certification work which had included estimated fees for work on Sure Start and the other claims noted above that did not require certifying this year.

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