

Central Bedfordshire Council

Certification of claims and returns annual report 2012-13

December 2013

Ernst & Young LLP



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Certification of claims and returns annual report 2012-13 Central Bedfordshire Council

We are pleased to report on our certification work. This report summarises the results of our work on Central Bedfordshire 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 set 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 one claim and three returns with a total value of £156,346,310. We met all submission deadlines. We issued qualification letters for one claim and one return. Details of the qualification matters are included in section 2. Our certification work found errors which the Council corrected. The amendments had only a minimal impact on the grant due or returns payable.

There were no recommendations from last year that the Council was required to implement.

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 welcome the opportunity to discuss the contents of this report with you at the Audit Committee.

Yours faithfully

Mick West

Director
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1. Summary of 2012-13 certification work

We certified one claim and three 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	£79,126,436
Limited or full review	Full
Amended	Amended – Subsidy increased by £15,360
Qualification letter	Yes
Fee – 2012-13	£36,375
Fee – 2011-12	£61,751
Recommendations from 2011-12:	Findings in 2012-13
None	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) where errors were found in the previous year or if initial testing identifies errors in the calculation of benefit or compilation of the 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 the four headline cells; 10 cases in rent rebates (non HRA) and 20 cases each in rent rebates (HRA), rent allowances and council tax benefit, your officers carried out extended testing for each cell where errors were found last year (19 cells) and where errors have been found in this year's initial testing. Extended testing was completed on 20 cells.

We are required to report the nature of the errors found and extrapolate the value across the cell population. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit paid. The testing also identified errors which the Council amended. They had a small net impact on the claim.

The following are the main issues included in our qualification letter:

Underpaid benefit	Testing identified underpaid benefit for a number of claimants mainly as a result of incorrectly calculating claimant income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes.
Misclassification of overpayments	The level of subsidy for overpayments is determined by the classification of the overpayment. The misclassification errors found resulted in overstatements and understatements of subsidy claimed. Misclassification errors have resulted in the larger extrapolations that impact on subsidy claimed.
Incorrect application of Claim Related Rent (CRR)	The calculation of rent for benefit purposes determines the level of subsidy for rent allowances. Overstatement of CRR results in a subsidy over claim.
No valid Rent Officer Determination in support of benefit assessments	These are reported in our qualification letter but have no impact on subsidy claimed.
Incorrect "netting off" by CIVICA system	Testing found 4 cases where, following a change of address, the value of the new claim had not been correctly netted off against an existing overpayment. The CIVICA system did not

net off the correct amount resulting in an overstatement of subsidy claimed. There was no impact on the claimant. The Authority will review all cases where there has been a change of address in the year to ensure that the correct values have been off set when a new award has been made

These issues were similar to the issues reported in 2011-12 and extended across the full range of benefit types.

Following recommendations made in previous annual certification reports the Council has prioritised staff training and quality control in the Revenues and Benefits team in order to reduce the number of errors in processing benefits claims.

The impact of the errors appears to be declining which may indicate that the actions taken are improving the quality of the assessments made. However, certification testing remains at a high level and a large number of errors are still being found. In order to reduce the level of testing the Council need to be able to demonstrate that the quality review processes in place have significantly reduced the number of errors being made in processing benefit claims. It is recommended that the Council:

- continues to prioritise staff training and quality control in the Revenues and Benefits team;
- ensures that it is able to evidence that the quality control arrangements in place are working effectively and reducing the number of errors made.

Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	£4,275,040
Limited or full review	Full
Amended	Amended – Return reduced by £53,452
Qualification letter	Yes
Fee – 2012-13	£4,350
Fee – 2011-12	£8,283
Recommendations from 2011-12:	Findings in 2012-13
None	Not applicable

The Teachers' Pension Scheme is a contributory pension scheme run separately from the local government pension scheme and administered by Teachers' Pensions on behalf of the Department for Education. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government. Auditors are required to carry out checks on the return made.

We found errors on the Teachers' Pension return which resulted in the return being amended. The following are the main issues included in our qualification letter:

The Authority had no arrangements in place to satisfy itself as to the completeness and accuracy of other payroll provider information. There was a lack of assurance that entries for teachers employed by the local authority whose pay is administered by another payroll provider were calculated correctly and paid to Teacher's Pensions (TP). The Authority collated the other payroll provider information received without any checks of the underlying data. Our testing identified.

- ▶ Ratio check errors on some returns which had not been resolved – these assess whether the contributions make sense compared to salaries paid

- ▶ Misclassification between tiers – resulting in incorrect contributions because different rates are paid across the salary tiers
- ▶ Evidence of incomplete data received

TP pre-fill the contribution paid figure in the return and the pre-filled total (£8,042,440) differs from the figure inserted by the Authority (£4,221,587). The discrepancy has arisen as many schools or their agents pay contributions direct to TP, and the Authority has not obtained details from every school or from TP of such payments made and received. The Authority has been following up this up but has not been able to reconcile the pre-filled contribution paid figure with a supporting analysis.

Our testing of monthly payslips for a sample of 25 teachers paid by the Authority payroll identified a number of inconsistencies in the Authority's records. The incidence of the testing failures and the history of qualification of the Teachers' Pensions Return indicate that the errors are not isolated examples found by chance. The errors result in incorrect payment of contributions by teachers and/or inaccurate service details on which to calculate their future pension payments.

Previous years' returns were also qualified on account of weaknesses in the arrangements to ensure the completeness and accuracy of information provided to the Council by other payroll providers. The Council drew up an action plan to address the issues and it was reported in last year's certification report that new procedures had been introduced from March 2012. This was particularly important given that the Council ceased to provide payroll services to schools in 2012-13.

It is recommended that the Council:

- ▶ assesses whether the new procedures were followed
- ▶ determines the action needed to secure effective administration of the return
- ▶ programmes an internal audit review to test the operation of revised procedures
- ▶ tracks delivery of the action plan through the Audit Committee

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£72,584,547
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£3,575
Fee – 2011-12	£3,477
Recommendations from 2011-12:	Findings in 2012-13
None	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 found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£360,285
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,050
Fee – 2011-12	£901
Recommendations from 2011-12:	Findings in 2012-13
None	Not applicable

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

We found no errors on the pooling of housing capital receipts return and we certified the amount payable to the pool without qualification.

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 Central Bedfordshire Council for 2012-13 was £ 45,350. The actual fee for 2012-13 was £45,350. This compares to a charge of £89,206 in 2011-12.

Claim or return ¹	2011-12		2012-13	
	Actual fee £	2011-12 fee less 40% reduction £	Indicative fee £	Actual fee £
Housing and council tax benefits subsidy claim	61,751	37,051	36,375	36,375
Teachers Pensions	8,283	4,970	4,350	4,350
National non-domestic rates return	3,477	2,086	3,575	3,575
Pooling of housing capital receipts	901	541	1,050	1,050
Other claims	14,794	Excluded	-	-
Total	89,206	44,648	45,350	45,350

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 £52,100. 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:

[\[http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/\]](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				
Continue to prioritise staff training and quality control in the Revenues and Benefits team	High	Agreed, increased sample checking is being undertaken as part of our pre claim submission work. Raising staff awareness of the type of errors made and the impact of these errors will continue. Any staff training issues identified will be addressed.	Ongoing	Service and Performance Manager – Revenues and Benefits
Evidence that the quality control arrangements in place are working effectively and reducing the number of errors made	High	Agreed. The reduced number of errors in the 2012/13 claim audit demonstrates the effectiveness of current quality control. Increased checking of transactions will continue to try and further reduce errors made.	Ongoing	Service and Performance Manager – Revenues and Benefits
Teachers' superannuation return				
Assess whether the new procedures were followed	High	Agreed. Revisions have been made to procedures during 2012/13 to meet requirements in the current (2013/14) financial year. The Head of Financial Control and the Head of HR Shared Services will jointly review the procedures followed in 2012/13 and the current arrangements.	28 February 2014	Head of Financial Control / Head of HR Shared Services
Determine the action needed to secure effective administration of the return	High	Agreed that the Head of Financial Control and the Head of HR Shared Services will determine if any further actions are required to secure the effective administration of the	28 February 2014	Head of Financial Control / Head of HR Shared Services

Summary of recommendations

			return for 2013/14.		
Programme an internal audit review to test the operation of revised procedures	High	Agreed. An audit review is planned for March 2014.		Ongoing	Head of Internal Audit and Risk
Track delivery of the action plan through the Audit Committee	High	Agreed.		Ongoing	Head of Internal Audit and Risk

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