

Central Bedfordshire Council

Certification of claims and returns annual report 2013-14

December 2014

Ernst & Young LLP



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The Members of the Audit Committee
Central Bedfordshire Council
Priory House
Monks Walk
Chicksands
Shefford
Bedfordshire
SG17 5TQ
Dear Member

12 December 2014

Ref:

Direct line: +44 20 7951 2000

Email: m.west@uk.ey.com

**Certification of claims and returns annual report 2013-14
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 2013-14 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 2013-14, 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 2013-14 certification work and highlights the significant issues.

We checked and certified one claim and one return with a total value of £65m. We met all submission deadlines. We issued a qualification letter for the Housing benefit and council tax subsidy claim. 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.

Last year we recommended that the Council should continue to prioritise staff training and quality control in the Revenues and Benefits team and evidence that the quality control arrangements in place are working effectively and reducing the number of errors made. There has been further staff training to reduce the number of processing errors. While quality control measures are in place no documented record is kept of the cases checked. We have recommended that a record is kept of the quality control checks that have been carried out noting the cases reviewed and any errors found

Fees for certification work are summarised in section 2. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme.

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

Yours faithfully

Mick West
Director
Ernst & Young LLP
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1. Summary of 2013-14 certification work

We certified one claim and one return in 2013-14. 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	£62,559,694
Limited or full review	Full
Amended	Amended – Subsidy reduced by £3,704.
Qualification letter	Yes
Fee – 2012-13	£36,375
Fee – 2013-14	£40,880
Recommendations from 2012-13:	Findings in 2013-14
Continue to prioritise staff training and quality control in the Revenues and Benefits team; Evidence that the quality control arrangements in place are working effectively and reducing the number of errors made ;	The Council has continued to prioritise staff training and quality control in the Revenues and Benefits team in order to reduce the number of errors in processing benefits claims. Quality control measures in place include checking, on a weekly basis, a random sample of a minimum of 4% of all claims processed. This increases to 100% of all claims processed for new members of staff. In addition, the Service and Performance Manager and Service Improvement Officer carry out additional checks on known problem areas such as Non-HRA claims, modified scheme claims, overpayment allocation and vulnerability classification.

Councils run the Government's housing benefits scheme for tenants. 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 continues to be required. In addition to our initial testing of the three headline cells; 9 cases in rent rebates (non HRA) and 20 cases in rent rebates (HRA) and rent allowances , your officers carried out extended testing for each cell where errors were found last year and where errors have been found in this year's initial testing. Extended testing was completed on 10 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 out further work to quantify the error or to claw back the benefit subsidy paid. Where our testing enabled us to quantify the error, without extrapolation, the Council amended the claim. These amendments reduced the subsidy payable to the Council by £3,704. The net impact of the extrapolated errors reported and the amendments agreed is a potential loss of subsidy of £50,514.

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

Underpaid benefit and overpaid benefit as a result of errors in income assessment.	Testing identified both underpaid and overpaid 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. The overpayment errors have been extrapolated across the relevant cell totals and reported to the DWP.
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Misclassification of overpayments	The level of subsidy for overpayments is determined by the classification of the overpayment. The misclassification errors found resulted in both overstatements and understatements of subsidy claimed. Misclassification errors have resulted in the larger extrapolations that impact on subsidy claimed.
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These issues were similar to the issues reported in 2012-13 and extended across the full range of benefit types.

Following errors reported in our qualification letter on the Housing Benefit and Council Tax Benefit subsidy claim for 2011-12 the Authority carried out additional testing on cell 102. The results of this testing were reported in our further qualification letter of 8 May 2013. The errors reported were where the premium for children aged under one (which ended with effect from 1 April 2011) had been incorrectly applied or where student income has been assessed incorrectly. The Department required an assurance from the auditor in the 2013-14 certification work that the relevant amendments had been made and the issue was now resolved. We reviewed the work carried out by the Authority and were able to confirm that the amendments had been made in 2013-14. Our testing in 2012-13 and 2013-14 has not identified any further cases with these types of error in cell 102.

The Council has continued to prioritise staff training and quality control in the Revenues and Benefits team in order to reduce the number of errors in processing benefits claims. Quality control measures in place include checking, on a weekly basis, a random sample of a minimum of 4% of all claims processed. This increases to 100% of all claims processed for new members of staff. The results of the weekly accuracy checks are reported as part of the Customer Accounts Dashboard which is reported to the Head of Service and Chief Finance Officer. The target that has been set for benefit assessment accuracy is 95%. This was not achieved in 2013-14, although performance did improve steadily during the year and 94% was achieved in April 2014. Performance has fallen in 2014-15 with accuracy at 87% for October 2014.

In addition, the Service and Performance Manager and Service Improvement Officer carry out additional checks on known problem areas such as Non-HRA claims, modified scheme claims, overpayment allocation and vulnerability classification.

The Council need to continue to prioritise staff training and quality control in the Revenues and Benefits team to ensure that the target set by the Council for benefit assessment accuracy is met and reduce the level of testing required to certify this claim.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£ 2,326,767.10
Limited or full review	Limited
Amended	No
Qualification letter	No
Fee – 2012-13	£901
Fee – 2011-12	£583
Recommendations from 2012-13:	Findings in 2013-14
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. 2013-14 certification fees

From 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 fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The initial indicative fee for 2013-14, set by the Audit Commission and reported in last year's Certification of claims and returns annual report, was £52,100. This indicative fee has since been reduced to take account of claims and returns that no longer continue to be certified under the Audit commission's arrangements (NNDR 3 and Teachers Pensions) and for council tax benefits dropping out of the benefits subsidy claim. The revised indicative fee for Central Bedfordshire Council for 2013-14 was £ 41,463. The actual fee for 2013-14 was £41,463. This compares to a charge of £45,350 in 2012-13.

Claim or return ¹	2012-13	2013-14	2013-14
	Actual fee £	Scale fee £	Actual fee £
Housing and council tax benefits subsidy claim	36,375	40,880	40,880
Teachers Pensions	4,350	-	-
National non-domestic rates return	3,575	-	-
Pooling of housing capital receipts	1,050	583	583
Other claims	-	-	-
Total	45,350	41,463	41,463

The base year fee for benefits (2011-12) included an additional fee of £9,400 for the follow up of queries raised by the DWP on the 2010-11 benefits claim. As similar work was not required in 2013-14 we are seeking a downward fee variation in the scale fee of £5,000.

3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-15 is £33,210. The actual certification fee for 2014-15 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2012-13 on individual claims or returns.

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 2012-13 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 Teachers' Pensions introduced for the Teachers' Pensions return for 2013-14.

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				
The Council need to continue to prioritise staff training and quality control in the Revenues and Benefits team to ensure that the target set by the Council for benefit assessment accuracy is met and reduce the level of testing required to certify this claim.	High			

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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