

# *Annual Certification Report* *2011/12*

## Hinckley and Bosworth Borough Council

*Government and  
Public Sector –  
Annual Certification  
Report to those  
charged with  
governance*

*February 2013*



The Members of the Finance, Audit and Performance Committee  
Hinckley & Bosworth Borough Council  
Council Offices  
Argents Mead  
Hinckley  
Leicestershire  
LE10 1BZ

21 February 2013

Our Reference: HBCCert201112/NT/MAJ

Ladies and Gentlemen

**Annual Certification Report (2011/12)**

We are pleased to present our Annual Certification Report which provides members of the Finance, Audit and Performance Committee with a high level overview of the results of certification work we have undertaken at Hinckley & Bosworth Borough Council on 2011/12 claims and returns.

This report includes a summary of our fees for 2011/12 certification work as Appendix A.

For the period ended 31 March 2012 we certified four claims and returns with an aggregate net value of £46,959,254. Of these, two were amended following certification work undertaken and two required qualification letters to set out matters arising from the certification of the claim or return. We set out further details in the attached report.

In addition, we identified a number of matters relating to the Authority's arrangements for preparation of claims and returns during the course of our work, the majority of which were of a minor nature. The most significant of the issues identified have been brought to your attention in this report.

We ask the Finance, Audit and Performance Committee to consider the adequacy of the proposed management action plan for 2011/12 set out in Appendix B.

Yours faithfully,

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'. The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

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# **Introduction**

## *Scope of work*

Grant-paying bodies pay billions of pounds in subsidies and grants each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement which reaches a conclusion but does not express an opinion. This involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued to us by the Audit Commission, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions; where this is not the case matters are raised in a ‘qualification letter’.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claims’ and returns’ certification, as well as the prescribed tests which we as local government appointed auditors must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies. Our role is to act as ‘agents’ of the Audit Commission when undertaking certification work; certification work is not an audit but a different form of assurance engagement, the precise nature of which will vary according to the claim or return; we are required to carry out work and complete the auditor certificate in accordance with the arrangements and requirements set by the Audit Commission.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including for our conclusions on the financial statements and on value for money.

## *Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*

In November 2010 the Audit Commission updated the ‘Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns’. This is available from the Audit Commission’s website. The purpose of this Statement is to summarise the Audit Commission's framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

## *Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies*

In March 2010 the Audit Commission issued a revised version of the ‘Statement of Responsibilities of Auditors and of Audited Bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

## *Results of Certification Work*

# Results of Certification Work

## Claims and returns certified

A summary of the claims and returns certified relating to the 2011/12 financial year is set out in the table below. In two cases qualification letters were required to set out matters arising from the certification of the claims; the same two claims were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were met.

Fee information for the claims and returns is summarised in Appendix A.

### 2011/12 claims and returns certified

CI Reference	Scheme Title	Form	Original Value (£)	Final Value <sup>1</sup> (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	23,635,625	23,635,681	Yes	Yes
CFB06	Pooling of housing capital receipts	Audit 2011-12	351,000	351,000	No	No
LA01	National Non Domestic Rates Return	NNDR3	27,188,826	27,188,826	No	No
HOU01	HRA Housing Subsidy Claim	1104 (on LOGASnet)	-4,216,253	-4,216,253	Yes	Yes

<sup>1</sup> Some amendments have no impact on the overall value of the claim.

## *Matters arising*

### **HRA Subsidy Claim (HOU01)**

Both the opening and closing Capital Financing Requirement (CFR) balances included in the claim form for 2011/12 had been incorrectly calculated. This was due to two separate issues:

- |   |
|---|
| <ol style="list-style-type: none"><li>1) Incorrect Statutory Charge to Revenue figure for 2010/11 used to calculate the opening CFR; and</li><li>2) Double counting of £76,000 of Earmarked Reserves within the General Fund.</li></ol> |
|---|

These issues led to the opening CFR balance being overstated by £17,000 and the closing CFR balance being understated by £60,000. The claim was amended for these issues and there was no impact on the Authority's entitlement to subsidy.

During 2012, the Authority undertook a comprehensive housing stock validation process which was in part undertaken in response to the 2010/11 qualification of the HRA Finance Base Data Return; the results of this survey were communicated to the Department for Communities and Local Government (DCLG) by the Authority and we have been advised that no further action has been requested. This process highlighted that the opening balance for the actual number of dwellings at 1 April 2011 was 3,401, rather than the prior year closing balance provided in the HRA Data Return of 3,393. We highlighted to the DCLG in our letter dated 19 December 2012, that the opening balance in the claim did not reconcile with the closing balance in the return because it had been updated to reflect the outcome of the housing stock validation process.

As these matters did not have a significant impact on the claim then no further consideration will be given in Appendix B. 2011/12 was the final HRA Housing Subsidy Claim following the introduction of self financing arrangements from 1 April 2012.

### **Housing and Council Tax Benefits Scheme 2011/12 (BEN01)**

Our testing identified a number of errors in relation to the Authority's compliance with Housing and Council Tax Benefit regulations. For some of the errors it was possible to quantify them and make appropriate amendments to the claim form; with exception to one of the amendments they were small in value. However, one of the amendments related to an input error onto the claim form with an incorrect entry for £2.7m requiring correction to £27,000; this error did not impact on the level of subsidy claimed. The total net impact of amendments to the original claim form was an increase in the total subsidy claimed of £56.

We also reported a number of matters to the Department for Work and Pensions (DWP) in a qualification letter for instances where no amendment could be agreed that would be representative of the whole population. In summary, the matters related to:

- inaccurate processing of extended payment periods (three errors identified);
- misclassification of overpayments (eleven errors identified);
- miscalculation of modified schemes cases (errors impacted all twenty six cases in the population); and
- failure to reconcile the total benefit granted per the Authority's benefits system to the claim form with a difference noted of £101.

The potential loss of subsidy to the Authority as a result of the findings detailed in our qualification letter is an estimated net loss of subsidy of £6,351; this represents 0.03% of the total subsidy value claimed. It should be noted that at the time of this report, we have not seen the final settlement details from the DWP.

### *Prior year recommendations*

All recommendations made in last year's certification report related to the HOU02 Housing Finance Base Data Return. 2010/11 was the final year of the HOU02 Housing Finance Base Data Return and therefore there have been no prior year recommendations to follow up this year.



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# *Appendices*

# Appendix A

## Certification Fees

The fees for certification of each claim/return are set out below:

Claim/Return	2011/12 (£)	2010/11 (£)	Comment
BEN01 Housing and Council Tax Benefits Scheme	35,935	32,310	Modified Scheme issues required additional work when compared to prior year and additional follow up required for reconciliation matters.
CFB06 Pooling of Housing Capital Receipts	1,449	1,298	
LA01 National Non Domestic Return (NNDR)	3,814	3,945	
HOU01 HRA Housing Subsidy Claim	4612	5,125	Improved working papers and knowledge of the claim within the Authority.
HOU02 Housing Finance Base Data Return	n/a	16,002	Scheme ended in 2010/11 with the move to self financing arrangements; as such no requirement for auditor certification.
HOU21 Disabled Facilities	n/a	1,070	Scheme ring fence removed; as such no requirement for auditor certification in 2011/12.
<b>Total</b>	<b>45,810</b>	<b>59,750</b>	

These fees reflect the Authority's current performance and arrangements for certification.

For the Housing Subsidy Claim significant improvements in the quality of working papers, knowledge and preparation of the claim were noted in 2011/12.

It should also be noted that, partly in response to issues raised when certifying the prior year claim, the Authority invested in a comprehensive housing stock validation exercise to ensure that the Housing Stock records were up to date and fairly stated.

There are now limited further opportunities for the Authority to continue to improve its performance as it has implemented many of the recommended best practices for the preparation of claims and returns, but it is always useful to remember that the following are key factors in maintaining/improving the Authority's performance with respect to claims/returns preparation and certification;

- ensuring that claims and returns are produced in line with certification instructions and guidance issued;
- ongoing provision of appropriate training and supervision of officers involved in the preparation of claims and returns;
- ensuring system parameters have been updated with relevant annual updates;
- undertaking a review of the final claim or return against supporting working papers to ensure there are no discrepancies and sufficient and appropriate evidence, that is fully compliant with certification instructions, is available for all fields tested by the auditor;
- ensuring that prior year issues have been fully addressed;
- undertaking a quality check/review of all claims and returns by a senior officer prior to the submission to the grant paying body and auditors;
- ensuring the adequacy and quality of evidence to support the entries in the claim/return; and
- timely responses and provision of evidence where certification queries arise.

Prior to the commencement of 2011/12 certification work we discussed with the Authority the ways in which we could help to improve the level of communication around issues we experience in the completion of our certification work at the Authority; issues which may ultimately impact on the level of certification fees.

We will continue to seek ways in which we can improve the overall level of liaison with senior officers regarding the progress of certification work, timing of work and any issues arising.

At the same time, we welcome closer scrutiny by officers of any certification claims submitted to us for review and continued efforts to ensure that the quality of evidence available to support claims/returns is appropriate. The Authority's performance may also be improved by ensuring prior year qualification issues are reviewed and controls assessed to minimise risk of similar errors occurring in future periods.

# Appendix B

## 2011/12 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
BEN01 Housing & Council Tax Benefit Scheme (30/11/12)	<p>Our 2011/12 testing identified issues relating to the following areas;</p> <ul style="list-style-type: none"> <li>• Council Tax Benefit: inaccurate processing of extended payment periods (three errors identified);</li> <li>• Council Tax Benefit: misclassification of overpayments (eleven errors identified); and</li> <li>• Modified Schemes: miscalculation of modified schemes cases (errors impacted all 26 cases in the population tested). This occurred for a number of reasons, the most significant being that the incorrect up rating date had been applied in all cases. The level of error and impact to subsidy for these cases could not be determined.</li> </ul> <p>The number of errors identified during 2011/12 represents an increase from 2010/11 (20 failed cases identified in the prior year). The issues noted in prior year were not so significant in nature and were amended for; with exception to modified schemes which was reported.</p>	<p>The error types identified each relate to more complex areas, as such the Authority should focus training, support and review of claims specifically around these error types.</p> <p>For modified schemes we were advised by the Authority that it would review the entire population and make necessary amendments to these claims to ensure they are accurately calculated going forward. As such the amendments will be considered as part of 2012/13 transactions on the next claim and additional work will be performed.</p>	<p>The recommendation is accepted. As the partnership now has access to a full time training officer we will ensure that assessor training is updated to include the three specific areas of:</p> <ul style="list-style-type: none"> <li>• extended payment processing;</li> <li>• classification of overpayments; and</li> <li>• modified schemes.</li> </ul>	<p>Head of Benefits and Revenues.</p> <p>This will be implemented from May 2013 (following completion of welfare reform training).</p>

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