
Annual Certification Report 2013/14 Hinckley & Bosworth Borough Council

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

February 2015



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The Members of the Finance, Audit and Performance Committee

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6 February 2015

Our Reference: HBBC/201314/Cert

Ladies and Gentleman

Annual Certification Report (2013/14)

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 the certification work we have undertaken at Hinckley & Bosworth Borough Council for financial year ended 31 March 2014.

We have also summarised our fees for 2013/14 certification work on page 6.

Results of Certification Work

For the period ended 31 March 2014, we certified two returns worth a net total of £20,289,750. Both returns were amended and one required a qualification letter to set out the matters arising from our work. We identified a number of matters relating to the Authority's arrangements for the preparation of the returns during the course of our work, some of which were minor in nature. Further details on these matters are included within this report.

We ask the Finance, Audit and Performance Committee to consider:

- the adequacy of the proposed management action plan for 2013/14 in Appendix A; and
- the adequacy of progress made by the Authority in implementing the prior year action plan in Appendix B.

Going forward, with changes in the Audit Commission structure, only the Housing Benefit Subsidy claim will be subject to certification under the existing regime. All other requests for auditor assurance work for claims and returns will operate outside of these engagement arrangements.

Yours faithfully,



PricewaterhouseCoopers LLP

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Introduction

Scope of Work

Each year some grant-paying bodies may request certification by an appropriately qualified auditor, of claims and financial returns submitted to them by local authorities. Certification arrangements are made by the Audit Commission under Section 28 of the Audit Commission Act 1998 and is one way for a grant-paying body to obtain assurance about an authority's entitlement to grant or subsidy or about information provided within a return.

Certification work is not an audit but a different type 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; these are designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions. The precise nature of work will vary according to the claim or return.

Our role is to act as 'agent' of the Audit Commission when undertaking certification work. We are required to carry out work and complete an auditor certificate in accordance with the arrangements and requirements set by the Audit Commission.

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

International Standards on Auditing UK and Ireland (ISAs), the Auditing Practices Board's Practice Note 10 (Revised) and the Audit Commission's Code of Audit Practice do not apply to certification work.

Statement of Responsibilities

The Audit Commission publishes a '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 website. It summarises the Commission's framework for making certification arrangements and highlights the different responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns.

Results of Certification Work

Claims and Returns certified

A summary of the claims and returns certified for financial year 1 April 2013 to 31 March 2014 is set out in the table below.

CI Reference	Scheme Title	Form	Original Value £	Final Value £	Amendment	Qualification
BEN01	Housing Benefit Subsidy	MPF720A	19,157,634	19,158,100	Yes	Yes
CFB06	Pooling of Housing Capital Receipts	2013Po6 (on LOGASnet)	1,131,650	1,131,650	Yes*	No

* The CFB06 return was amended but this had no impact on the overall value of the return.

The Audit Commission require that all matters arising are either amended for (where appropriate) or reported within a qualification letter.

A qualification letter was required to set out matters arising from the certification of the BEN01 return. Both the BEN01 and CFB06 returns were amended. The most important of these matters are summarised on page 7.

All deadlines for Authority's submission of the claims were met. All deadlines for auditor certification were met.

Certification Fees

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

Claim/Return	2013/14 Indicative Fee *	2013/14 Variation**	2013/14 Proposed Final Fee**	2012/13 Billed Fee	Comment
	£	£	£	£	
BEN01 Housing Benefit Subsidy	19,794	7,188	26,982	21,968	Council Tax subsidy ceased in 13/14 resulting in no requirement for auditor testing.
CFB06 Pooling of Housing Capital Receipts	907	0	907	2,932	
LAO1 National Non Domestic Rates	0	0	0	3,574	This scheme was removed from Audit Commission arrangements for 2013/14
Total	20,701	7,188	27,889	28,474	

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

* Indicative fees may subsequently be updated for Audit Commission approved variations; for example where there was a change in the level of work required.

** Fee variations are pending Management approval and formal approval from the Audit Commission.

A fee variation has been requested owing to the additional work which was required in the certification of the BEN01 claim. The 2013/14 indicative fee is based on the amount of work which was performed in 2011/12. The number of errors identified in our initial sample increased to 18 errors (five in 2011/12). These errors, in addition to the required consideration of prior year errors required extension testing of 392 cases (132 in 2011/12) which resulted in 37 errors (19 in 2011/12).

The Council can maintain and continue to improve its performance by:

- continued review of final claims / returns against supporting working papers to ensure there are no discrepancies prior to the Authority's signature and provision to the grant paying body and PwC ;
- continued review of guidance issued by the grant paying body in relation to the claim / return and completion;
- ensuring the adequacy of evidence to support the claim / return entries; and
- timely responses and provision of evidence where queries arise.

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, time and issues.

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 Council's performance may also be improved by ensuring prior year qualification issues are reviewed and controls assessed to mitigate against similar errors occurring in future periods.

Matters Arising

The most important matters we identified through our certification work are summarised below; further details can be found in Appendix A.

BEN01 Housing Benefit Subsidy Claim

Our testing identified a number of errors in the Authority's compliance with Housing and Benefit regulations. In a number of cases it was possible to quantify these errors and make appropriate amendments to the claim form.

We also reported a number of matters to the Department for Work and Pensions (DWP) in a qualification letter where no amendment could be agreed which would be representative of the whole population.

In summary these matters related to the:-

- Application of earnings (three errors identified in our sample of Rent Allowances).
- Application of pensions (two errors identified in our sample of Rent Allowances).
- Application of working tax and child tax credits (nine errors identified in our sample of Rent Allowances).
- Classification of overpayments (two errors identified in our sample of Rent Allowances and seven errors identified in our sample of Rent Rebates).
- Application of Jobseekers Allowance (one error identified in our sample of Rent Allowances).
- Application of non-dependant deductions (nine errors identified in our sample of Rent Allowances).
- End date of claims (one error identified in our sample of Rent Rebates).

The majority of these errors types have not been identified in previous years except for the application of earnings which we reported in our qualification letter dated 29/11/2013.

As a result of the identification of errors last year and from our early work on the BEN01 2013/14 return, extended testing of the return was required. The Authority's staff undertook this extended testing and we re-performed an element of this work. We are pleased to report that this testing was of a good quality.

CFBO6 Pooling of Housing Capital Receipts Return

No significant issues were noted through our certification work on this return.

Prior year recommendations

We have reviewed the progress made by the Authority in implementing actions to address issues we'd reported in 2012/13 following our certification work; details can be found in Appendix B.

Appendix A

Management Action Plan: Current year issues (2013/14)

BEN01 Housing Benefit Subsidy Claim

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>In total we found 57 errors during the course of our BEN01 certification work.</p> <p>23 errors resulted in amendments to the original claim form and were not included within the qualification letter.</p> <p>34 failed cases were reported in the qualification letter to the DWP. The errors related to:</p> <ul style="list-style-type: none"> • incorrect application of earnings (Rent Allowances); • incorrect application of pensions (Rent Allowances); • incorrect application of tax credits (Rent Allowances); • misclassification of overpayments (Rent Allowances and Rent Rebates); • incorrect application of Jobseekers' allowance (Rent Allowances); • incorrect application of non-dependent deductions (Rent Allowances); and • incorrect claim dates (Rent Rebates). 	<p>The error types identified each relate to various aspects; these being application of tax credits, income and classification of overpayments. As such the Authority should focus training, support and specifically in year review of claims around these error types.</p> <p>Modified Schemes is an area which has presented a significant number of fails year on year requiring full population testing by the auditor. The Authority should perform checks and training in this area to ensure the accuracy and compliance of the claim submitted for certification work and appropriate awarding of benefit.</p>	<p>We will be arranging refresher training for all assessment staff.</p> <p>Specifically we have set up a focus group comprising of the quality assurance team, training officer and team leaders to address the areas of concern raised by the subsidy audit. This includes putting together updated guidance to support the decision making process.</p> <p>A new quality checking regime will also be put in place to ensure the appropriate reviews take place in year.</p> <p>In respect of modified scheme because these contain more complex income calculations our intention is to have these assessed by senior officers only.</p> <p>Modified schemes were not highlighted as an issue in the qualification letter for this year; however the claim form did require amending prior to submission.</p> <p>The majority of errors highlighted in the qualification letter were small in value and so did not have an impact on the final claim. The value of the final claim exceeded the provisional estimates.</p>	<p>S A Coop 1/4/15</p>

Appendix B

Management Action Plan: Prior year issues (2012/13)

For 2013/14 under Audit Commission certification arrangements, the following schemes did not apply:

- LA01 National Non Domestic Rates

Alternative arrangements may have been entered into directly between the grant paying bodies and assurance practitioners, however for the purposes of this report, which is focused on Audit Commission certification work, these schemes have been excluded; on this basis where issues arose in prior year these are now excluded from the action plan.

BEN01 Housing Benefit Subsidy Claim

Issue	Prior year Recommendation	2012/13 Management response	Recommendation Status 2013/14
<p>In total we identified 75 failed cases during the course of our BEN01 certification work.</p> <p>46 failed claims had either no financial impact or resulted in amendments to the original claim form, thus were not included within the qualification letter; however required additional work to be undertaken and the errors quantified.</p> <p>29 failed cases were reported in the qualification letter.</p> <p>In summary, the errors identified during 2012/13 related to:</p> <ul style="list-style-type: none"> • Non HRA rent rebates: rent value incorrectly input on the system to reflect only the amount upon which subsidy can be claimed; • Non HRA rent rebates and Council Tax Benefit: misclassification of overpayments; • Council Tax Benefit, Rent Allowances and Rent Rebates: incorrect application of income in relation to occupational pensions, assessed income, employment earnings, child tax credits and self- 	<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 none HRA rent rebates we were advised by the Authority that it would ensure future cases include the correct rental value to prevent future errors in processing.</p>	<p>It is acknowledged that these are one of the more complex areas of benefit assessment. Therefore it is our intention that claims of this type will be dealt with by more experienced assessors. Tailored training is being arranged to reduce the incidence of errors in this claim type.</p>	<p>2013/14 follow up testing found that:</p> <ul style="list-style-type: none"> • Separation of rent expenditure issues were identified in Non HRA Rent Rebates and the claim form appropriately amended. • No issues in relation to misclassification of overpayments in Non HRS rent rebates were found but issues were found in Rent Allowances and Rent Rebates and included as part of the qualification letter. • Issues were identified in Rent Allowances and Rent Rebates in relation to the incorrect application of income in relation to earnings, pensions, tax credits, Jobseekers Allowance and non-dependent deductions and included as part of the qualification letter. • Modified Schemes continues to be an area of error.

<p>employed income;</p> <ul style="list-style-type: none"> • Council Tax Benefit: inaccurate processing of extended payment period; and • Modified schemes: numerous errors relating to the application of evidence and division between local and national scheme expenditure. 			
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(Due to the removal of Council Tax subsidy from the 2013/14 claim form, any issues noted in 2012/13 in relation to this particular benefit type have been excluded.)

Glossary

2013/14 Schemes applicable to the Authority under the Audit Commission Certification arrangements

BEN01 Housing Benefit Subsidy Claim

Local authorities responsible for administering statutory housing benefit (HB) of rent rebates to tenants of a local authority and rent allowances to private tenants; claim subsidy from the Department for Work and Pensions (DWP). With the exception of certain areas of benefit spending where authorities have the most scope to monitor and control costs, subsidy is paid at the full rate of 100 per cent of expenditure incurred.

CFB06 Pooling of Housing Capital Receipts Return

Since 2004/05, local authorities pay part of a housing capital receipt into a national pool run by the Department of Communities and Local Government (DCLG). Pooling applies to all authorities, including those with closed HRAs who typically receive housing receipts in the form of mortgage principal and Right to Buy (RTB) discount repayments.

Audit Commission Definitions for Certification work

Abbreviations used in certification work are:-

‘appointed auditor’ is the auditor appointed by the Audit Commission under section 3 of the Audit Commission Act 1998 to audit an authority’s accounts who, for the purpose of certifying claims and returns under section 28 of the Act, acts as an agent of the Commission. In this capacity, whilst qualified to act as an independent external auditor, the appointed auditor acts as a professional accountant undertaking an assurance engagement governed by the Commission’s certification instruction arrangements;

‘claims’ includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;

‘assurance engagement’ is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;

‘Commission’ refers to either the Audit Commission or the Grants Team of the Audit Policy and Regulation Directorate of the Commission which is responsible for making certification arrangements and for all liaison with grant-paying bodies and auditors on certification issues;

‘auditor’ is a person carrying out the detailed checking of claims and returns on behalf of the appointed auditor, in accordance with the Commission’s and appointed auditor’s scheme of delegation;

‘grant-paying bodies’ includes government departments, public authorities, directorates and related agencies, requiring authorities to complete claims and returns;

‘authorities’ means all bodies whose auditors are appointed under the Audit Commission Act 1998, which have requested the certification of claims and returns under section 28(1) of that Act;

‘returns’ are either:

- returns in respect of grant which do not constitute a claim, for example, statements of expenditure from which the grant-paying body may determine grant entitlement; or
- returns other than those in respect of grant, which must or may be certified by the appointed auditor, or under arrangements made by the Commission;

‘certification instructions’ (‘CIs’) are written instructions from the Commission to appointed auditors on the certification of claims and returns;

‘Statement’ is the *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, available from www.audit-commission.gov.uk;

‘certify’ means the completion of the certificate on a claim or return by the appointed auditor in accordance with arrangements made by the Commission;

‘underlying records’ are the accounts, data and other working papers supporting entries on a claim or return.

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