

# *Annual Certification Report* *2011/12* Melton Borough Council

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

*February 2013*



The Members of the Governance Committee

Melton Borough Council  
Parkside, Station Approach  
Burton Street  
Melton Mowbray  
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LE13 1GH

February 2013

Our Reference: 201112/CERT/MBC

Ladies and Gentlemen

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

We are pleased to present our Annual Certification Report which provides members of the Governance Committee with a high level overview of the results of certification work we have undertaken at Melton Borough Council Council in 2011/12.

We have also summarised our fees for 2011/12 certification work in Appendix A.

**Results of Certification work**

For the period ended 31 March 2012 we certified four claims and returns worth a final aggregate net total of £21,911,619. 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.

We ask the Governance Committee to consider:

- the adequacy of the proposed management action plan for 2011/12 set out in Appendix B, and;
- the adequacy of progress made in implementing the prior year action plan in Appendix C.

Yours faithfully,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP -". The signature is written in a cursive style and is contained within a light grey rectangular box.

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 claim and return 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.

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## *Results of Certification Work*

# Results of Certification Work

## Claims and returns certified

A summary of the claims and returns certified during the 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. Two of the claims/returns 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.

### Claims and returns certified in 2011/12

CI Reference	Scheme Title	Form	Original Value (£)	Final Value <sup>1</sup> (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	11,049,991	11,054,250	Yes	Yes
CFB06	Pooling of housing capital receipts	Audit 2011-12	538,681	536,350	Yes	No
LA01	National Non Domestic Rates Return	NNDR3	12,168,005	12,168,005	No	No
HOU01	HRA Housing Subsidy Claim	1104 (on LOGASnet)	-1,846,986.	-1,846,986.	No	Yes

<sup>1</sup> Please note, some amendments to entries within claim forms may have no direct impact on final values.

## *Matters arising*

The most important matters we identified through our certification work are summarised below. Further detail can be found in Appendix B.

### Pooling of Housing Capital Receipts (CFB06)

PwC was presented with an amended return on upon commencement of the certification fieldwork. The amendment related to a low value overpayment of mortgage receipts to the DCLG following a system reporting error. This was identified by the Authority and appropriately adjusted.

### HRA Housing Subsidy Claim (HOU01)

Whilst we did not find any issues with the current year claim, we did identify a transposition error relating to the prior year claim, which caused a discrepancy on an entry in the current year claim form. This related to the Council's Capital Financing Requirement at 1 April 2011 minus 'Adjustment A'. This was reported to the DCLG in our qualification letter dated 19 December 2012.

### Housing and Council Tax Benefits Scheme

Our testing identified a number of errors in relation to the Council's compliance with Housing and Council Tax Benefit regulations. A number of the errors identified could be quantified and in these cases, appropriate amendments were made to the claim form. The total impact of amendments to the original claim form led to an increase in the total subsidy claimed of £4,259.

We also reported a number of matters to the DWP in a qualification letter where no amendment could be agreed which would be representative of the whole population. In summary, the matters related to:

- miscalculation of earned income (one error identified for a Rent Rebate case); and
- misclassification of overpayments (total of 7 errors identified for Rent Allowance cases).

Similar errors were identified in our qualification letter from the prior year.

We do not anticipate any loss of subsidy from the matters referred to in our qualification letter, although, at the time of this report, we have not had sight of the final settlement details from DWP.

## *Prior year recommendations*

We have reviewed progress made by the Council in implementing the certification action plan for 2010/11. Details can be found in Appendix C.

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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	35,648	31,009	A number of very complex cases were reviewed with queries which were investigated with the Authority and required additional senior auditor input to resolve and conclude upon. This was particularly time consuming. In addition, the original claim was provided to us prior to a required system report being generated. When the Authority ran the system report a number of differences were noted and manual adjustments to the claim were required. All of these differences had to be reviewed by the auditor as part of confirming the appropriateness of amendments. There was some delay with the expiry of system passwords and resetting our access to Authority records to enable testing to continue.
CFB06 Pooling of Housing Capital Receipts	1,410	1,461	n/a
LA01 National Non Domestic Return (NNDR)	4,318	6,125	Reduction of fee due to much improved supporting working papers and reports.
HOU01 HRA Housing Subsidy Claim	3,970	1,468	In the prior year limited testing was performed. Due to this being the final year of the scheme and additional self financing considerations within the scope of auditor work, detailed testing was performed.
HOU02 HRA Finance Base Data Return	n/a	3,195	This scheme ended in 2010/11 with self financing arrangements commencing from the 1 April 2012. No further requirement for auditor certification.
<b>Total</b>	<b>45,346</b>	<b>43,258</b>	

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

The Council could continue to improve its performance by:

- review 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 ;
- review 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.

# 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>In total we identified 23 failed cases during the course of our BEN01 certification work.</p> <p>15 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.</p> <p>8 failed cases were reported in the qualification letter.</p> <p>In summary, the errors identified during 2011/12 related to:</p> <ul style="list-style-type: none"> <li>• Incorrect calculation of eligible rent for temporary accommodation (Non HRA Rent Rebates)</li> <li>• Incorrect omission of non dependent's income (Rent Rebates)</li> <li>• Miscalculation of earned income and missing evidence to support earned income (Rent Rebates)</li> <li>• Incorrect award of council tax benefit for a deceased claimant (Council Tax)</li> <li>• Misclassification of overpayments (Non HRA Rent Rebates and Rent Allowances cases)</li> <li>• Miscalculation of modified schemes cases (all benefit types).</li> </ul>	<p>The error types identified each relate to more complex areas, these being application of tax credits, classification of overpayments and application of extended payments. As such the Authority should focus training, support and specifically in year review of claims around these error types.</p>	Agreed	<p>Benefits Team Leader</p> <p>Implementation will commence in May 2013</p>

# Appendix C

## 2010/11 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
LA01 National Non Domestic Rates Return (23/09/11)	<p>Through our work on this claim we identified one property which had been deemed to be qualifying for empty property relief but where there was insufficient evidence to support the eligibility for relief. Subsequent additional testing of five premises identified that three properties were in fact occupied following bailiff inspections; as such they were ineligible for the relief. We reported this matter to the CLG.</p> <p>Nine amendments were required in the National Non-Domestic Rates Return; this was caused by errors in the original return that did not correspond to the working papers and system reports.</p>	<p>The Council should ensure that independent inspection evidence is retained to support eligibility for empty property relief and that independent inspections are undertaken on a frequent basis. Relief should only be claimed where it can be ascertained that the property is empty in accordance with the regulations. As part of procedures for preparing the return, the Authority should check the figures against supporting evidence. Where variances are identified following submission this should be communicated at the commencement of fieldwork. All working papers should be retained to support the entries on the return and provided as part of certification deliverables.</p>	<p>As part of the Councils Inspection service, the Council has negotiated that a bailiff firm is to provide twice-yearly inspections of business properties on behalf of the Council and for areas where there are likely to be more empty units (e.g. industrial estates) these will be visited at least once in between the other visits for the period going forward. However, the Council will be reviewing performance, including undertaking sample checks on the bailiff's inspections to ensure a quality service is being received.</p> <p>As a further addition to our ongoing inspections of empty business properties, the Revenue Section is working more closely with the Council's planning department to utilise relevant information of their inspections of empty business properties to supplement information held within the Revenue Section. The Town Centre Managers continue to visit all empty Town Centre properties and we retain any documentation provided to support the eligibility for relief.</p>	<p>Financial Inclusion Officer Implemented Feb 2012</p>	<p>Our sample testing of empty property relief in 2011/12 did not raise issues of a similar nature.</p> <p>No amendments were required to the Return and we saw an improvement in the working papers and system reports supplied to support the Return.</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
			<p>6 amendments were made to the form (a further 3 were auto populated cells). Only 1 change amended the contribution to the pool by £3,000 and this was due to a late software upgrade from Northgate regarding the Business Rate Deferral scheme. We will continue to retain the working documents and system generated reports with the NNDR claim.</p> <p>A detailed response was given to CLG and they were satisfied with the NNDR return.</p>		
BEN01 Housing and Council Tax Benefit Scheme (30/11/11)	<p>We reported a number of matters to the DWP in relation to compliance with the Housing and Council Tax Benefit regulations. These include:</p> <ul style="list-style-type: none"> <li>the application of changes in tax credits;</li> <li>entitlement end dates;</li> </ul> <p>the accuracy and validity of cell 071 overpayments, many of which were a result of no consideration of underlying entitlement when calculating the overpaid amount.</p>	<p>The Council should take note of the potential risk of financial penalties being applied by the DWP in response to the matters we have reported in our 2010/11 qualification letter and seek assurance that improvements are being made including:</p> <ul style="list-style-type: none"> <li>adapting the approach to the review of assessors' work (focusing on areas of greatest risk, where previous errors have been identified or potential financial implications could</li> </ul>	<p>Quality assurance (QA) will continue to be carried out in a more targeted way, primarily focusing on the main areas of error identified. Closer liaison between Customer Service benefit processing staff and the Back Office team has already been implemented with benefit specific monthly meetings, lead by the Team Leader – Benefits, arranged to raise awareness of and address any related issues. Regular subsidy QA checks will be carried out focusing on overpayment cells, particularly cell 71.</p>	Senior Benefit Officer	Consideration and sample testing of these errors in 2011/12 did not give rise to any further concern.

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
		be greater);and training for assessors in the areas where issues have been identified in the current year.			

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## Glossary

### Audit Commission Definitions for Certification work

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#### Abbreviations used in certification work are:-

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**‘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;

**‘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;

**‘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;

**‘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;

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

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

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

**‘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;

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

**‘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;

**‘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](http://www.audit-commission.gov.uk);

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

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