
Melton Borough Council Certification Report (2010/11)

Report to those charged with governance

*Certification Report to
those charged with
governance 2010/11*

February 2012





The Members of the Governance Committee
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Our Reference: MBCCert1011/NT/AB

Ladies and Gentlemen

Annual Certification Report (2010/11)

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 in 2010/11.

We have also summarised our fees for 2010/11 certification work in Appendix A.

Results of Certification work

For the period ended 31 March 2011 we certified five claims and returns worth a final net total of £20,460,483. Of these, three were amended following certification work undertaken and two required qualification letters to set out matters arising from the certification of the claim/return. We set out further details in the attached report.

We identified a number of matters relating to the Council's arrangements for preparation of claims and returns during the course of our work, some of which were of a minor nature. The most important of these matters have been brought to your attention in this report.

We ask the Governance Committee to consider:

- the adequacy of the proposed management action plan for 2010/11 set out in Appendix B, and;
- the adequacy of progress made in implementing the prior year action plan in Appendix C.

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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Introduction

Scope of work

Grant-paying bodies pay billions of pounds in grants and subsidies 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. 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.

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.

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.

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. Our reports and letters are prepared in the context of this Statement. 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.

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.

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 below. In two cases qualification letters were required to set out matters arising from the certification of the claim/return. Three of the claims/returns were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were met.

Claims and returns certified in 2010/11

CI Reference	Title	Form	Original Value (£)	Final Value ¹ (£)	Amendment	Qualification
LA01	National Non Domestic Rates Return	NNDR3	11,570,058	11,573,058	Yes	Yes
CFB06	Pooling of housing capital receipts	Audit 2010-11	243,757	243,757	No	No
HOU02	HRA Subsidy Base Data Return	12B2 Auditor base data return (on LOGASnet)	N/a	N/a	Yes	No
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	10,268,309	10,268,340	Yes	Yes
HOU01	HRA Housing Subsidy Claim	1004 (on LOGASnet)	-1,624,672	-1,624,672	No	No

¹ Some amendments have no impact on the overall value of the claim.

Matters arising

The most important matters we identified through our certification work are summarised below.

National Non-Domestic Rates Return

Through our work on this return we identified one property which had been deemed to qualify for empty property relief but where there was insufficient evidence to support the eligibility for relief. Subsequent additional testing of a further five premises identified that three properties were actually occupied following bailiff inspection and as such, they were ineligible for the relief claimed.

We reported this matter to the CLG in our qualification letter dated 22 September 2011.

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.

Nine amendments were required in the National Non-Domestic Rates Return; these were caused by errors in the original return that did not correspond to the working papers and system reports.

Housing and Council Tax Benefits Scheme 2010/11

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

- application of changes in tax credits;
- incorrect entitlement end dates;
- sufficient evidence to support earned income figures;
- correct application of NI deduction in calculating self employed earnings; and
- inaccurate or invalid cell 071 overpayment entries** (often arising from no consideration of underlying entitlement).

The majority of these error types have not been identified in previous years with the exception of the Cell 071 overpayment errors which are a recurring issue for the Council.

The extended testing following our initial testing of benefit cases was performed this year by the Authority and an independent consultant. We are pleased to report that this testing was of an excellent quality and reperformance of 100% of their testing (as in the prior year) by PwC was not required.

The potential loss of subsidy to the Council as a result of our findings is an estimated net impact of £27k. It should be noted that at the time of this report, we have not had sight of the final settlement details from DWP.

(**Cell 071 of the claim form relates to overpaid HRA Rent Rebates (prior years) – Eligible overpayments.)

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2009/10. Details can be found in Appendix C.

Appendices

Appendix A

Certification Fees

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

Claim/Return	2010/11 (£)	2009/10 (£)	Comment
LAO1 National Non Domestic Return (NNDR)	6,125	4,727	Several issues were encountered with the quality of supporting evidence to the Return; fieldwork required increased senior auditor input.
CFBo6 Pooling of Housing Capital Receipts	1,461	2,595	Provision of good quality working papers on the commencement of work.
HOU02 HRA Subsidy Base Data Return	3,195	5,243	In 2010/11 we were able to place reliance the control environment resulting in a reduction to the work required.
HOU01 HRA Housing Subsidy Claim	1,468	4,031	In 2010/11 we were able to place reliance the control environment resulting in a reduction to the work required.
BEN01 Housing and Council Tax Benefits Scheme	31,009	39,750	In prior year we were unable to place reliance on the work of internal audit for a particular element of testing undertaken; this required greater PwC input to re-perform all elements. In current year this work was carried out by the Council's Team Leader – Benefits, in conjunction with support from an external Benefits specialist the Council appointed for this same aspect; upon which we could place reliance.
Total	43,258	56,346	

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

The Council could improve its performance by:

- review the final NNDR return against supporting working papers to ensure there are no discrepancies;
- 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.

Prior to the commencement of 2010/11 certification work we discussed with the Council the ways in which we can help to improve the level of communication around issues we experience in the completion of our certification work, issues which may impact ultimately impact on certification fees.

During 2010/11 we committed to improving the level of communication with the Housing and Council Tax Benefits Section to ensure that officers were aware of the reasons for undertaking any extended work in this area.

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

2010/11 Management Action Plan

Claim/Return Issue (deadline)	Recommendation	Management response	Responsibility (Implementation date)
<p>LA01 National Non Domestic Rates Return (23/09/11)</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>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</p>	<p>Financial Inclusion Officer Implemented Feb 2012</p>

claim.

A detailed response was given to CLG and they were satisfied with the NNDR return.

BENO1 Housing & Council Tax Benefit Scheme (30/11/11)	We reported a number of matters to the DWP in relation to compliance with the Housing and Council Tax Benefit regulations. These include: <ul style="list-style-type: none">• the application of changes in tax credits;• entitlement end dates;• 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.	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: <ul style="list-style-type: none">• 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 be greater);and• training for assessors in the areas where issues have been identified in the current year.	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.	Senior Benefit Officer
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Appendix C

2009/10 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
LA01 National Non Domestic Rates Return (24/09/10)	<p>We identified four properties which had been deemed to be qualifying for empty property relief but where there was insufficient evidence to support their eligibility for relief.</p> <p>We reported this matter to the CLG in our qualification letter.</p> <p>Subsequent correspondence took place between CLG and the Council, with a final decision that no penalty would be made.</p>	The Council should ensure that independent inspection evidence is retained to support eligibility for empty property relief.	Whilst the 4 properties identified had partial evidence to support the empty property relief we have since changed the process for inspecting empty NNDR properties. A detailed response was given to CLG and they were fully satisfied with the NNDR return. There were no amendments to the amount the Council received.	Financial Inclusion Officer Implemented March 2011	Outstanding – a similar issue was noted in 2010/11. (See Appendix B)
BEN01 Housing & Council Tax Benefit Scheme (30/11/10)	<p>We reported a number of matters to the DWP relating to the Council's compliance with Benefits regulations. We agreed with the Council that no amendments relating to the matters identified would be made to the original claim form. As such, all relevant issues were reported in our qualification letter.</p> <p>In summary, these matters related to:</p> <ul style="list-style-type: none"> • misclassification of overpayments of benefit; • incorrect use of dates in the calculation of overpayments; • incorrect re-posting of an 	<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 2009/10 qualification letter and seek assurance that improvements are being made including:</p> <ul style="list-style-type: none"> • the approach to the review of assessors' work (focusing on areas of greatest risk, where previous errors have been identified or potential financial 	We used a consultant to look at the issues raised by PWC. We did have some issues with some of the findings and PWC would agree that some of their findings would be different if they were given more up-to-date guidance from the AC. In addition our consultant successfully challenged some of the original 'errors'. However, we have brought in external trainers specifically to improve assessors understanding relating to issues raised. Our consultant has also undertaken training with staff and we have improved procedure notes and guidance manuals. Our QA also looks at issues raised in a more targeted manner.	This is has already been implemented but is an ongoing issue and further training, procedure notes etc will be produced as appropriate.	Implemented - Current year work has confirmed that issues noted in prior years in respect of manual amendments, transposition errors and overpayments have mainly been resolved with the exception of the accuracy and validity of cell 071 overpayments. Errors in this area have been noted for further consideration within a current year recommendation.

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
	<p>overpayment that had previously been written off;</p> <ul style="list-style-type: none"> • incorrect dates used in the application of new data; • transposition and interpretation errors when inputting data; and • errors in manual amendments made to parts of the claim form (relating specifically to modified scheme cells). 	<p>implications could be greater);</p> <ul style="list-style-type: none"> • training for assessors in the areas where issues have been previously been identified; and • checks for consistency in manual amendments made to the claim form are carried out. 			
HOU02 HRA Subsidy Base Data Return (08/10/10)	<p>We noted during our work that the calculation of the total value of the rent roll did not comply with guidance and excluded rent income due from void dwellings based on the amount the Council would have reasonably charged if occupied.</p> <p>An amendment of £180,338 was made to the return to correct this error. A similar error had also been identified in the previous year.</p>	The return and guidance should be reviewed before it is submitted to avoid similar errors occurring in future.	Agreed to be reviewed by Chief Accountant	Chief Accountant	Implemented – no equivalent issues raised in the current year.

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