

*Annual Certification Report
to those charged with governance
2011/12*
Darlington Borough Council

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

February 2013



The Members of the Audit Committee

Darlington Borough Council
Town Hall
Feethams
Darlington
County Durham
DL1 5QT

Our Reference: DBC 2011/12

Ladies and Gentlemen

Annual Certification Report (2011/12)

We are pleased to present our Annual Certification Report summarising the results of our 2011/12 certification work. We look forward to presenting it to members on 23 March 2012. The purpose of this report is to provide a high level overview of the results of certification work we have undertaken at Darlington Borough Council on 2011/12 claims and returns that is accessible for members and other interested stakeholders.

Fees for 2011/12 certification work are summarised in Appendix A.

Results of Certification work

During the period June – December 2012 we certified five claims and returns worth a total of £84,519,525.07. Of these, two were amended following certification work undertaken, although the amendments did not affect the monetary value of the claims, and one required a qualification letter to set out significant issues arising from the certification of the claim/return. We set out further details in the attached report.

We identified a number of issues relating to the Authority's arrangements for the preparation of claims and returns. We have not included every issue identified here, but instead focused on those which could have a material impact on the amount of a claim or return or on the accounts.

We ask the Audit 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,

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 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 during the year is set out below. In one case a qualification letter was required to set out significant issues arising from the certification of the claim. Two of the claims/returns were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were met without exception.

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 ¹ (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	46,006,548.00	46,006,548.00	No	Yes
CFB06	Pooling of housing capital receipts	Audit 2011-12	269,066.89	269,066.89	Yes – Note 1	No
LA01	National Non Domestic Rates Return	NNDR3	31,633,500.17	31,633,500.17	No	No
HOU01	HRA Housing Subsidy Claim	1104 (on LOGASnet)	-2,385,711.00	-2,385,711.00	Yes – Note 1	No
PEN05	Teacher's Pension Return	TR17	4,224,699.01	4,224,699.01	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. Further detail can be found in Appendix B

Housing and Council Tax Benefits Scheme 2011/12

Our testing identified some errors in relation to the Council's compliance with Housing and Council Tax Benefit regulations. Management did not make any amendments to the claim to reflect the errors identified and therefore we reported these matters to the DWP in a qualification letter.

In summary, the matters related to:

- Expenditure relating to 2010/11 being included in the 2011/12 claim; and
- Misstatements arising from officers entering information into the benefits system incorrectly.

We have not included any recommendations in the 2011/12 management action plan in relation to this claim as the authority already undertakes a programme of accuracy checks on a sample basis; however due to the high volume of transactions processed each year it is not possible to identify all errors.

In addition, the Department for Work and Pensions has asked us, as external auditors, and management to perform some additional work in relation to the qualification letter submitted with this claim. The aim of this work is to clear some of the points in the qualification letter and we will update the Audit Committee on the progress of this work at the meeting on 23 March 2012.

Pooling of Housing Capital Receipts 2011/12

We identified one disposal with a value of £287,640.45 that had been classified as a 'disposal under Right to Buy or with "relevant consent" to owner occupiers of dwellings subject of an agreement made under section 80B' rather than a 'disposal under Right to Buy'. Officers corrected this in the final certified return and the amendment had no impact on the overall pooling liability for 2011/12.

HRA Housing Subsidy claim 2011/12

An understatement of £2,331 was identified in the 'Capital Financing Requirement at 1 April 2011 minus adjustment A' and the 'Capital Financing Requirement at 1 April 2012 minus adjustment A' as officers had used the incorrect value for adjustment A in completing the return. This was amended in the final version of the claim submitted for certification.

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2010/11. 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	2011/12 (£)	2010/11 (£)	Comment
BEN01 Housing and Council Tax Benefits Scheme	22,488	15,081	We identified several errors during our initial sample testing which meant that we had to perform an additional site visit to test an extended sample. Furthermore, the additional work required more senior management time.
CFB06 Pooling of Housing Capital Receipts	2,471	2,135	An amendment was made to the original return submitted for certification which meant additional time was required for documenting and reviewing the work in comparison to last year.
LAO1 National Non Domestic Return (NNDR)	2,832	2,390	The increase is essentially a consequence of the Annual Certification costs being allocated to individual returns - see comment against Annual Certification Costs below.
HOU01 HRA Housing Subsidy Claim	3,009	2,736	Not applicable
PEN05 Teacher's Pension Return	1,693	1,511	An additional site visit was required to complete the certification work in comparison to last year.
Annual Certification Report	nil	2,470	In 2010/11 we issued a separate invoice for the costs of producing this annual certification report. In 2011/12 we have absorbed the cost into the individual certification fees listed above which explains part of the increase for each claim or return.
Total	32,493.00	26,323.00	

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

Prior to the commencement of 2011/12 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.

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)
Pooling of Housing Capital Receipts (CFB06) (28 September 2012)	<p>Classification of housing capital receipts</p> <p>We identified one disposal with a value of £287,640.45 that had been classified as a ‘disposal under Right to Buy or with “relevant consent” to owner occupiers of dwellings subject of an agreement made under section 80B’ rather than a ‘disposal under Right to Buy’.</p>	We recommend that, prior to submission to us for certification, management perform a review of the return to check that classification of receipts is consistent with their knowledge of the business.	Agreed	Capital Finance Officer – July 2013
HRA Housing Subsidy Claim (HOU01) (31 December 2012)	<p>Accuracy of calculations</p> <p>An understatement of £2,331 was identified in the ‘Capital Financing Requirement at 1 April 2011 minus adjustment A’ and the ‘Capital Financing Requirement at 1 April 2012 minus adjustment A’ as officers had used the incorrect value for adjustment A in completing the return.</p>	We recommend that, prior to submission to us for certification, management perform a review of the claim to check that calculations agree to underlying records.	Agreed	<p>Not applicable</p> <p>There will be no requirement to complete a HRA Housing Subsidy Claim in future years.</p>

Appendix C

2010/11 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
Sure Start, Early Years and Childcare Grant and Aiming High for Disabled Children Grant (EYCo2) (28 October 2011)	Fixed Asset Registers One of the conditions of Sure Start funding is that the accountable bodies should maintain a fixed asset register documenting all capital assets acquired through the grant. It was noted that for a number of the Sure Start Centres the asset registers do not include cost, dates of purchase or depreciation, and the registers were inconsistent across the centres. Additionally it was noted that in a number of cases there were non-capital items included on the fixed asset registers.	We recommend that systems and processes are put in place to ensure that all capital expenditure funded through Sure Start is captured on the fixed asset registers. The detail should include the cost, date of purchase and depreciation consistently across all the Sure Start Centres asset registers as the guidance states 'Although 2010/11 is the final year of SSEYCG and AHDC grant, authorities remain responsible for grant-funded assets for the remainder of their economic life.'	Agreed The Council is working with the DFE to ensure that the work done to bring the Asset Registers up to date meets their requirements.	Sure Start staff 2012	Not applicable We were not required to certify this claim in 2011/12.

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
Sure Start, Early Years and Childcare Grant and Aiming Higher for Disabled Children Grant (EYCo2) (29 October 2010)	Late Submission of the claim to auditors The deadline for the Authority to submit the claim to us for certification was 31 July 2011; however we did not receive the claim until 16 September 2011.	We recommend that processes are put in place to ensure that all claims are submitted to us for certification by the deadlines set by the Audit Commission.	Agreed Management will ensure that claims are submitted within timescale.	Sure Start staff 2012	Not applicable We were not required to certify this claim in 2011/12.

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
Housing and council tax benefits scheme (BEN01) (30 November 2011)	<p>Parameters in the system</p> <p>The Department for Work and Pensions (DWP) notifies local authorities each year of the level of specific deductions to be used in the calculation of housing and council tax benefits. Officers did not input all of these parameters individually into the housing system.</p> <p>In respect of parameters for other contributory and non-contributory social security rates for Attendance Allowance, Carers Allowance and associated child dependency increases officers applied percentage adjustments to the 2010/11 figures to generate the parameters for 2011/12 which resulted in some variances to the deductions set by DWP.</p>	<p>We recommend that, in future, all parameters are entered individually into the housing system in line with DWP guidance and that Authority performs checks in year to ensure that actual income rates are used in the calculation of HB/CTB prior to completion of the subsidy claim.</p>	<p>Agreed</p> <p>The DWP notifies Local Authorities each year of the levels of uprating for contributory and non-contributory benefit for the following financial year. For some benefits it is not possible to simply uprate the exact figures in accordance with this notification as actual levels of benefit vary from claim to claim, for example State Retirement Pension and Incapacity benefit.</p> <p>These benefits are therefore uprated using an appropriate percentage. This can mean that some incomes are incorrect following the uprating process at year end, although only usually by a few pence at most. In the case of Attendance Allowance it should be noted that this income is disregarded in full.</p> <p>A full review is then undertaken during the year of all these income types and any amounts are corrected in year to ensure that subsidy is correctly claimed. We will ensure that these in year checks are undertaken and that actual income rates are used in the calculation prior to completion of the subsidy claim.</p>	<p>Head of Revenues and Benefits 2012</p>	<p>Closed</p> <p>We did not identify any similar issued as part of 2011/12 certification work.</p>

Glossary

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;

‘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;

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



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