

*Annual Certification Report
to those charged with governance
2012/13*
Darlington Borough Council

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

February 2014



The Members of the Audit Committee

Darlington Borough Council
Town Hall
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Our Reference: DBC 2012/13

Ladies and Gentlemen

Annual Certification Report (2012/13)

We are pleased to present our Annual Certification Report which provides members of the Audit Committee with a high level overview of the results of certification work we have undertaken at Darlington Borough Council in 2012/13.

We have also summarised our fees for 2012/13 certification work in Appendix A.

Results of Certification work

For the period ended 31 March 2013, we certified four claims and returns worth a final net total of £82,669,052.51. Of these, two required qualification letters to set out matters arising from the certification of the claim or return, furthermore, these claims also required amendment. We have 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 Audit Committee to consider:

- the adequacy of the proposed management action plan for 2012/13 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 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 in the table below. In two cases qualification letters were required to set out matters arising from the certification of the claim/return, furthermore, these claims also required amendment. 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 2012/13

CI Reference	Scheme Title	Form	Original Value (£)	Final Value ¹ (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	47,436,594.00	47,436,649.00	Yes	Yes
CFB06	Pooling of Housing Capital Receipts	2012PO6 (on LOGASnet)	628,090.00	628,090.00	No	No
LA01	National Non Domestic Rates Return	NNDR3	32,897,911.72	32,897,911.72	Yes – note 1	Yes
PEN05	Teachers' Pension Return	EOYCd	1,706,401.79	1,706,401.79	No	No

¹ The amendment had 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.

National Non-Domestic Rates Return

Through our work on this return we identified that a valuation office direction was manually entered by an officer into the system with the incorrect effective date. We reported this matter to the CLG in our qualification letter dated 25 September 2013.

We recommend that the Council should extend its programme of accuracy checks which are currently performed on a sample basis.

One amendment was required in the National Non-Domestic Rates Return; this was caused by errors in the working papers.

Housing and Council Tax Benefits Scheme 2012/13

Our testing identified a number of errors in relation to the Council's compliance with Housing and Council Tax Benefit regulations. With these items it was possible to quantify several of the errors and make appropriate amendments to the claim form. However, there were also several items that were also reported in the qualification letter where no amendment could be agreed which would be representative of the total population.

In summary, the matters related to:

- Parameters that are present on the uprating checklist not being hard coded into the system. This is consistent with our findings from previous years and the Council does not feel that these are required either because they are not applicable to the Council or because staff enter them manually from evidence on claims forms or CIS;
- Three of the four in year reconciliation cells did not agree to the headline cells. These were amended by the Council in the final certified return;
- For homeless cases, the Housing Benefits Department was using rents provided by the Housing Options Department which had been artificially capped at the LHA rate. The Housing Options Department was in some cases paying higher rents and bore the cost of this from their budget. While not impacting on the benefit paid or claimed this led to the understatement of cell 13 as excess rent above the LHA cap was not captured in the claim form. These were amended by the Council in the final certified return;
- Misstatements arising from officers entering information into the benefits system incorrectly; and
- Lack of evidence to support deductions made by the system for uncashed cheques.

These error types have not been identified in previous years with the exceptions of the system parameters and misstatements from manual errors by officers.

The extended testing of benefit cases was performed this year by the Authority.

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2012/13. 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	2012/13 Indicative Fee *	2012/13 Approved Variation*	2012/13 Billed Fee (£)	2011/12 (£) Billed Fee (£)	Comment
BEN01 Housing and Council Tax Benefits Scheme	8,210	tbc	tbc	22,488	The 2012/13 fee indicated reflects the initial scale fee for 2012/13. We have approached the Audit Commission for variations to the fees to reflect the work performed on the grants in 2012/13. Once we have has confirmation as to whether the variations have been approved, we will notify the Council of the agreed final fee.
CFB06 Pooling of Housing Capital Receipts	1,390	tbc	tbc	2,471	
LAO1 National Non Domestic Return (NNDR)	1,560	tbc	tbc	2,832	
PEN05 Teacher's Pension Return	990	tbc	tbc	1,693	
Total	12,150	tbc	tbc	29,484	

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

*It should be noted that the Audit Commission updated the fee approach for certification in 2012/13. This applied a 40% discount to the 2010/11 billed fee. Indicative fees may subsequently have been updated for Audit Commission approved variations; for example where there was a change in the level of work required.

The Council could improve its performance by:

- reviewing the final claim / return against supporting working papers to ensure there are no discrepancies;
- fully understanding system generated calculations with the assistance of the system provider; and
- increasing the amount of sample checks performed on information entered manually into the system.

Prior to the commencement of 2012/13 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 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

2012/13 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
LA01 National Non Domestic Return (NNDR) (27/9/13)	<p>Accuracy of calculations</p> <p>It was noted that the figure in Part 2 B ii) Gross rates payable net amounts in respect of previous years was showing a positive figure of £9,941.42.</p> <p>This was not expected and was queried with the Council as part of the analytical review. Upon investigating the Council confirmed that they had made an error in their working spreadsheet.</p> <p>The correct figure should be minus £728,381.99.</p> <p>The difference being posted to Part 2 B i) Gross rates payable in respect of 2012/13.</p>	We recommend that prior to submission to us for certification, management perform a review of the return to check that calculations agree to underlying records and are consistent with their knowledge of the business.	Agreed that all claims will be proof read and validated prior to submission for audit.	Anthony Sandys March 2014
BEN01 Housing and Council Tax Benefits Scheme (30/11/13)	<p>Reconciliation cells</p> <p>Three of the four in year reconciliation cells did not agree to the headline cells.</p>	We recommend that prior to submission to us for certification, management perform a review of the return to check that the reconciliation cells agree to the headline cells and resolve any rounding differences that may have arisen.	The discrepancies identified were purely down to rounding's. We will proof read the claim form prior to submission.	Anthony Sandys March 2014
BEN01 Housing and Council Tax Benefits Scheme (30/11/13)	<p>Lack of evidence for system generated deductions</p> <p>Testing of uncashed cheques revealed that for case 930362 the deduction automatically calculated and applied by the Northgate System was £65.83.</p>	The case identified should have been investigated with the system provider to understand if the system is producing the correct data.	These cases where we can't justify claiming subsidy with any evidence we take a prudent approach and deduct manually from the claim so not to over claim.	Anthony Sandys March 2014

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
	However, evidence could only be supplied to support a deduction of £19.11. The prudent deduction of £65.83 was made by the Council.		Further investigation will be made in future.	
BEN01 Housing and Council Tax Benefits Scheme (30/11/13)	Payments over the LHA cap For homeless cases, the Housing Benefits Department was using rents provided by the Housing Options Department which had been artificially capped at the LHA rate. The Housing Options Department was in some cases paying higher rents and bore the cost of this from their budget. While not impacting on the benefit paid or claimed this led to the understatement of cell 13 as excess rent above the LHA cap was not captured in the claim form.	Actual rents paid should be communicated to the Housing Benefits Department and input into the system. We recommend that standard rents are not used as changes may not be identified promptly but that each rent payment is input based on the invoiced amount/payment made. Evidence should be maintained to support these rents ideally via being scanned onto the system.	Non-HRA claims where calculated up to the 1 bed LHA rate and not the actual rent charged, we have amended the final subsidy claim manually to reflect the amount payable up to eligible rent charged. Going forwards in to 13/14 year, we have agreed the rent charges per property with the housing homeless section and pay up to the eligible rent. I will be quality checking a percentage of these cases on a regular basis throughout the financial year.	Anthony Sandys March 2014
BEN01 Housing and Council Tax Benefits Scheme (30/11/13)	Manual errors in payslips There were five manual errors identified in the current year. These all related to mistakes on inputting payroll information.	We recommend that the Council increases the frequency of its internal sample checking of manual data and specifically focuses on payslips.	As the error found was down to human error when inputting payslip information, we will be performing a comprehensive and targeted accuracy check of all manually inputted information. This will allow us to identify any recurring errors and be more specific with developing a training programme. From the error found in 12/13 claim we were asked to collate a report specific to the error found i.e. claims with payslips input. Our systems admin have now comprised a report that can be ran on a regular basis to clearly identify these claims, this will enable us to quality check the desired case load.	Anthony Sandys March 2014

Appendix C

2012/13 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
CFB06 Pooling of Housing Capital Receipts (29/09/12)	Classification of housing capital receipts 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'.	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	Closed We did not identify any similar issue as part of 2012/13 certification work.
HOU01 Housing Subsidy Claim (31/12/12)	Accuracy of calculations 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	We recommend that prior to submission to us for certification, management perform a review of the return to check that calculations agree to underlying records.	Agreed	Not applicable There will be no requirement to complete a HRA Housing Subsidy Claim in future years.	Not applicable We were not required to certify this claim in 2012/13.

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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