

*Annual Certification Report  
to those charged with governance  
2012/13  
London Borough of Havering*

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

*January 2014*



## **The Members of the Audit Committee**

London Borough of Havering  
Town Hall  
Main Road  
RM1 3BB

*29 January 2014*

Our Reference: LBH 2013

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 London Borough of Havering 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 £188,336,621. Of these, three required qualification letters to set out matters arising from the certification of the claim or return. 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

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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 three cases qualification letters were required to set out matters arising from the certification of the claim/return. In one instance the certification deadline was not 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 <sup>1</sup> (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	108,040,718	108,040,718	No	Yes
CFB06	Pooling of Housing Capital Receipts	2012PO6 (on LOGASnet)	3,565,059.69	3,565,059.69	No	No
LA01	National Non Domestic Rates Return	NNDR3	65,542,221.97	65,542,221.97	No	Yes
PEN05	Teachers' Pension Return	EOYCd	11,188,621.25	11,188,621.25	Yes*	No*

\*A qualification letter was submitted to Teachers Pensions to amend entry 2h(v). This is the agreed process between the Audit Commission and Teachers Pensions for setting out and submitting amendments to the certified claim rather than the Authority submitting an amended audited return.

## *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 2012/13*

Our testing identified one error in relation to overpayment of benefits due to the Council miscalculating claimant income. We reported this matter to the DWP in a qualification letter.

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

### *Teachers' Pension return*

A tiered contribution system was implemented in 2012/13 for the first time in accordance with the pension regulations for teachers. This increased the inherent complexity in the preparation of the return.

We reported two matters to the Teacher's Pension Agency as we were unable to amend the return for these to be made.

### *National Non-Domestic Rates Return*

Our work on this return identified two matters in relation to the evidence to support the award of empty property relief and evidence to demonstrate that the approval process for write off of debt had been followed appropriately. These matters were reported to CLG in our qualification letter.

### *Prior year recommendations*

We have reviewed progress made in implementing the certification action plan for 2012/13 and can report that all of the prior year recommendations have been met. 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	2012/13 Indicative Fee *	2012/13 Variation*	2012/13 Forecast outturn Fee (£)	2011/12 Final Fee (£)	Comment
BEN01 Housing and Council Tax Benefits Scheme	22,821	3,320	26,141	38,620	
CFB06 Pooling of Housing Capital Receipts	2,399	0	2,399	4,100	
LA01 National Non Domestic Return (NNDR)	3,618	3,167	6,785	6,400	I Variation sought as a result of additional work, including extension of testing in relation to empty property relief and debt write off.
PEN05 Teacher's Pension Return	1,528	6,172	7,700	7,200	The terms and conditions of this return changed significantly as a "tiered contribution" rates system was implemented in 2012/13 for the first time. This has increased the complexity of the preparation and certification of the return.
<b>Total</b>	<b>30,366</b>	<b>12,659</b>	<b>43,025</b>	<b>56,320</b>	

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. Fees above this level have been agreed with the Audit Commission.

The Council could improve its performance by:

- reviewing the final claim / return against supporting working papers to ensure there are no discrepancies;
- reviewing 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
- providing timely responses and evidence where queries arise.

# Appendix B

## 2013/14 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
Housing and council tax benefits subsidy (BEN 01) (30/11/2013)	<p>From our initial testing of 80 cases, we found one case where benefit had been overpaid as a result of miscalculating the claimant's income.</p> <p>Testing of an additional sample of 40 cases identified one further case where the claimant's income had been calculated incorrectly.</p> <p>The extrapolated error across the population of similar cases is £9,571.</p>	While the issues noted were relatively minor in the context of the complexity of the BENO1 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.	On discovery of these errors during the course of the audit, the Lead Subsidy & Support Officer briefed the benefit processing sections. In addition, further training is planned this financial year to refresh and remind benefit processors of how to deal with these minor but unusual scenarios.	<p>Jeff Potter, Head of Exchequer Services/Chris Henry, Council Tax and Benefits Manager</p> <p>3 1 March 2014</p>
Teachers Pensions (Pen 05) (29/11/2013)	<p>Initially, we identified that the return was compiled incorrectly as it did not reconcile to the payroll system. We also identified a number of errors in the underlying working papers that required us to extend our sample testing.</p> <p>We identified that teachers had initially been paying pension contributions at the incorrect tiered rates, whilst this had been corrected in the March 2012 payroll, the return had been compiled on a monthly basis so the return had been compiled with the contributions reflected within incorrect tiers. The Council performed an exercise to identify these</p>	We recommend that the Council ensures the Teacher's Pension return and supporting working papers reconciles to the payroll system and that procedures are put in place to review the 2013-14 working papers before these are passed to PwC for certification.	<p>The Teachers Pensions new banding calculations regulations were issued only 6 weeks before implementation for April 2012. This led to issues on the understanding of the new tiers and how to record against them and what is required when adjustments were due and the recording of them.</p> <p>In July 2013 a new checking process has been put in place to ensure the banding tiers have been calculated correctly for the monthly payments over.</p> <p>When One Oracle is implemented in April 2014, there will be a report produced to make</p>	<p>Karen Balam, Transactional Services Manager/Marion Self, Transactional Specialist, Payroll</p> <p>Completed</p>

<b>Claim/Return (deadline)</b>	<b>Issue</b>	<b>Recommendation</b>	<b>Management response</b>	<b>Responsibility (Implementation date)</b>
	entries and amend the return accordingly.		recording and reporting the monthly bandings over to Teachers Pension easier and more accurate.	April 2014, subject to One Oracle implementation
National Non-Domestic Rates Return (LA01) (27/9/2013)	<p>Our initial testing of empty premises entries identified five premises that did not have an inspection or otherwise to confirm that they were indeed empty for the period in question.</p> <p>The authority explained that the cases within the initial sample were identified as not having received an inspection due to an integrity error within the Academy software that omitted them from the inspection routine and that this has subsequently been rectified. In order to understand the extent of the error further testing was performed. This identified a further 22 premises that did not have an inspection or otherwise, to confirm that they were indeed empty for the period in question.</p>	We recommend that the Council ensures that empty property inspections are performed before the issuance of the relief.	<p>It would not always be practical to visit a property prior to the award of the unoccupied relief and is not a routine adopted by many authorities. However I accept that routine visits are desirable and therefore to establish a base position have arranged for an external inspection service to undertake a review of every property currently shown as unoccupied based on a snapshot at the middle of December 2013.</p> <p>Additionally Exchequer Services has significantly enhanced the number of inspectors available across the Revenue service to address such issues and will be introducing a visiting regime that ensures every empty property is visited in a 6 monthly cycle.</p>	<p>Ted Smith Exchequer Services Improvement Manager</p> <p>1<sup>st</sup> April 2014</p>
National Non-Domestic Rates Return (LA01)	Our initial testing of 25 write-offs, identified two that did not have evidence to support that the Council's approval process had been followed correctly. In	We recommend that the Council ensures that evidence is retained to support that the approval process has been followed correctly.	Agreed. Procedures have now been implemented to ensure that write off schedules are controlled and the appropriate reconciliations maintained in line with this	Ted Smith Exchequer Services Improvement

<b>Claim/Return (deadline)</b>	<b>Issue</b>	<b>Recommendation</b>	<b>Management response</b>	<b>Responsibility (Implementation date)</b>
(27/9/2013)	order to understand the extent of the error further testing was performed. This identified a further 22 write- offs that did not have evidence to support that the Council's approval process had been followed correctly.		recommendation	Manager  1 <sup>st</sup> April 2014

# Appendix C

## 2012/13 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
Teachers Pensions (Pen 05)	From our work, a number of significant issues were found that lead to qualification of the claim. From discussion with Management we understand the issues are primarily due to the new Oracle system upgrade in 2011-12 financial year.	Recommend the Authority develop reports to ensure a complete population can be produced from the new system allowing;	Separation of contributory salary (reckonable pay) from the payroll system has been achieved from November 12.	Head of Internal Shared Services November 2012	Implemented
	<ol style="list-style-type: none"> <li>Contributory salary figures were calculated by 'grossing up' other entries on the TR17 return and fully derived from payroll records.</li> </ol> <p>The Authority started using a new payroll system during 11/12 and at the time the TR17 return was compiled, reports to show the contributory salary for each employee could not be extracted. Therefore to calculate the Total Actual Contributory Salary per line 1 of the form, the Teachers Contributions</p>	<ul style="list-style-type: none"> <li>Separation of contributory salary (reckonable pay) from the payroll system</li> </ul>	Reports are to be produced before year end to extract actual contributory salary April 12 to October 12.	March 2013	Implemented

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
	shown in cell 2(b)(iii) had been grossed up.				
	<p>2. A complete population could not be obtained to test contributions in relation to teachers employed in LA maintained establishments, as the payroll reports included contributions in relation to teachers employed in academy schools which should be excluded from the TR17 return.</p> <p>Similarly we could not ensure contributions had been correctly calculated and deducted as we did not have a complete population of contributions from which to pick our sample from.</p> <p>From our testing of refunds (£368.68), it was established the amount was not a refund but was owed to a teacher. An admin error led to £368.68 being refunded to the teacher. The Authority chose not to amend the claim based on</p>	<p>- Separation of LA maintained schools payroll from academies payroll administered by the Authority</p>	<p>Academies moved on to own payrolls March 12 separated March 12</p>	<p>March 2012</p>	<p>Implemented</p>

<b>Claim/Return (deadline)</b>	<b>Issue</b>	<b>Recommendation</b>	<b>Management response</b>	<b>Responsibility (Implementation date)</b>	<b>Recommendation Status</b>
	the low value of the error.				
Housing and council tax benefits subsidy (BEN 01)	<p>From our initial testing of 80 cases, we found one error as detailed below;</p> <p>One case was incorrectly classified as regulated tenancy (i.e. tenancy commenced pre 1989). From our work performed the case was a de-regulated case as the tenancy commenced post 1989. No impact on the claim in terms of subsidy claimed by the Authority.</p> <p>However additional work was required to be performed to check no further cases were found to be incorrectly misclassified.</p> <p>The error was concluded to be isolated.</p>	We recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.	Agreed	<p>Benefits Manager/Head of Exchequer Services</p> <p>Timescale:</p> <p>March 2013</p>	Implemented





## 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](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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