

*Annual Certification Report  
to those charged with governance  
2011/12*  
London Borough of Havering

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

January 2013



The Members of the Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
RM1 3BB

January 2013

Our Reference: LBH 2012

Ladies and Gentlemen

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

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 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 six claims and returns worth a final net total of £194m. Of these, three claims were amended following certification work undertaken and one claim (Teachers Pensions return) required a qualification letter to set out matters arising from the certification of the 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 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

*PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT*

*T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 7500, [www.pwc.co.uk](http://www.pwc.co.uk)*

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

---

# **Contents**

---

<b><i>Introduction</i></b>	<b>4</b>
<b><i>Results of Certification Work</i></b>	<b>5</b>
<b><i>Appendix A: Cerification Fees</i></b>	<b>6</b>
<b><i>Appendix B: 2012/13 Management Action Plan</i></b>	<b>7</b>
<b><i>Appendix C: 2011/12 Management Action Plan – Progress made</i></b>	<b>9</b>

---

---

# ***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

## Claims and returns certified

A summary of the claims and returns certified during the year is set out in the table below. In only one case a qualification letter was required to set out matters arising from the certification of the claim/return. Three 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	Title	Form No.	Original Value (£)	Final Value (£)	Amendment value (£)	Subject to qualification
BEN01	Housing and Council Tax Benefits	MPF720A 00035240	102,639,003	102,639,003	Nil	No
CFB06	Pooling of Capital Receipts	Audit 2010-11	1,700,267.03	1,700,267.03	Nil	No
HOU01	HRA Subsidy	1104	9,870,771	9,827,017	- 43,754	No
LA01	National Non Domestic Rates Return	NNDR3 E5040	65,652,158	66,398,957	746,800	No
PEN05	Teachers Pensions Return	TR17	11,707,853	12,638,850	930,997	Yes
RG31	Rainham Public Realm	25619	699,800	699,800	Nil	No

## Matters arising

The most important matters we identified through our certification work are detailed in Appendix B.

## Prior year recommendations

Overall the Council has made good progress in implementing the certification action plan for 2010/11. Details can be found in Appendix C.

# Appendix A

## Certification Fees

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

CI Ref	Claim/Return Title	2011/12	2010/11 (£)	Comment
BEN01	Housing and Council Tax Benefits	38,120	38,000	N/A
CFBo6	Pooling of Capital Receipts	4100	3,995	N/A
HOU01	HRA Subsidy	6285	6,280	N/A
LA01	National Non Domestic Rates Return	7100	6,025	The value of the current year return was higher then the prior year. In addition, following our risk assessment of the control environment we undertook additional sample testing to provide comfort that the claim was fairly stated in accordance with the Certification Instructions.
PEN05	Teachers Pensions Return	7200	2,545	A significant number of issues were found during the testing of the claim as detailed in Appendix B of this report. The issues largely arose from the new financial ledger system (Oracle R12) implemented in April 2011. This required additional time from PwC staff to finalise the field work. PwC worked with the Authority to meet the deadline. PwC kept the Authority aware of the issues and costs throughout the process.
RG31	2011/12 Rainham Public Realm	4300	2,290	Last year the claim was just below the de-minimus value, and only part A testing was undertaken. The claim in 2011/12 is above the de-minimus of £500k and based on our risk assessment of the control environment we were required to undertake part B substantive testing. This has resulted in a high fee compared to the prior year.
Total		<b>67,105</b>	<b>59,136</b>	

These fees reflect the Council's current performance and arrangements for certification. It may be possible to reduce fees should the Authority improve its performance by addressing the recommendations made in this report.

# Appendix B

## 2012/13 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
<b>Teachers Pension (Pen 05)</b>	<p>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.</p> <ol style="list-style-type: none"> <li>Contributory salary figures were calculated by 'grossing up' other entries on the TR17 return and not 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 shown in cell 2(b)(iii) had been grossed up.</p> <ol style="list-style-type: none"> <li>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.</li> </ol> <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><b>High</b></p> <p>The Authority should develop reports to ensure a complete population can be produced from the new system allowing;</p> <ul style="list-style-type: none"> <li>Separation of contributory salary (reckonable pay) from the payroll system</li> <li>Separation of LA maintained schools payroll from academies payroll administered by the Authority</li> </ul>	<p><b>Agreed</b></p> <p>Separation of contributory salary (reckonable pay) from the payroll system has been achieved from November 12</p> <ul style="list-style-type: none"> <li>Reports are to be produced before year end to extract actual contributory salary April 12 to October 12.</li> <li>Academies moved on to own payrolls in March 2012.</li> </ul>	<p><b>Head of Internal Shared Service</b></p> <p>Implemented December 2012</p> <p>March 2013</p> <p>Implemented December 2012</p>

From our testing an admin error led to £368.68 being refunded to the teacher. The Authority chose not to amend the claim based on the low value of the error.

---

**Housing and council tax benefits subsidy**

(BEN 01)

From our initial testing of 80 cases, we found one error as detailed below;

One case was incorrectly classified as a 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.

However additional work was required to be performed to check no further cases were found to be incorrectly misclassified.

The error was concluded to be isolated.

**Low**

We recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.

**Agreed**

**Benefits Manager/Head of Exchequer Services**

Timescale:

March 2013

---



# Appendix C

## 2011/12 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Status
<b>Housing and council tax benefits subsidy</b> (BEN 01)	<p>Some minor issues were noted in testing of the BEN 01 claim:</p> <ul style="list-style-type: none"> <li>• Incorrect tax credit rates applied to two cases out of twenty tested in our initial sample</li> <li>• Incorrect classification of one claimant as a “modified scheme”</li> </ul> <p>Minor issues with the production of the draft claim form</p>	<p><b>MEDIUM</b></p> <p>While the issues noted were minor in the context of the complex arrangements for the BEN01 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future</p>	<p><b>Agreed</b></p> <p>Issues arising from the audit of the BEN01 claim will continue to be incorporated into the Benefit Officer training programme.</p>	<i>Implemented</i>
<b>HRA Subsidy Base Data Return</b> (HOU02)	<p>During testing we found six instances where Council dwellings had been wrongly classified by type, for example they were classified as medium rise rather than low rise.</p> <p>Identified errors were amended by the Authority.</p>	<p><b>MEDIUM</b></p> <p>The Council should review the data held on dwellings to ensure classifications are correctly recorded.</p>	<p><b>Partially Agreed</b></p> <p>From 1 April 2012 there will no longer be the need for auditors to certify the stock for subsidy purposes. The last return was in August 2011.</p> <p>However it will be good practice in the future to maintain the classification. HiH will continue to sample check the stock analysis as and when the properties are surveyed for decent homes works. However it is not deemed value for money to undertake a whole stock check.</p>	<i>Implemented</i>

## 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.

---



This document has been prepared for the intended recipients only. To the extent permitted by law, PricewaterhouseCoopers LLP does not accept or assume any liability, responsibility or duty of care for any use of or reliance on this document by anyone, other than (i) the intended recipient to the extent agreed in the relevant contract for the matter to which this document relates (if any), or (ii) as expressly agreed by PricewaterhouseCoopers LLP at its sole discretion in writing in advance.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.