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KPMG Annual Report on grants and returns work 2014/15

Leicester City Council

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<p>Introduction and background</p>	<p>This report summarises the results of work we have carried out on the Council’s 2014/15 grant claims and returns.</p> <p>This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2014/15 is:</p> <ul style="list-style-type: none"> ■ Under the Public Sector Audit Appointment arrangements we certified one claim – the Council’s 2014/15 Housing Benefit Subsidy claim. This had a value of £135.7 million. ■ Under separate assurance engagements we certified three returns as listed below. <ul style="list-style-type: none"> – Pooling of Housing Capital Receipts Return. This had a value of £8.5 million. – Teachers’ Pension Authority Return. This had a value of £23.3 million. – Homes and Communities Agency (HCA) Compliance Report. 	
<p>Certification results</p>	<p>Our work on the Council’s Housing Benefit Subsidy claim was subject to a qualification letter.</p> <ul style="list-style-type: none"> ■ A qualification letter was required, due to a number of recurring errors, mainly the inclusion of incorrect earnings and tax credits in benefit entitlement calculations. In accordance with the certification instruction a qualification letter was mandated as a result of identifying errors of this nature. We identified new errors this year in respect of incorrect self employed earnings and incorrect statutory maternity pay in benefit entitlement calculations. This additional testing was offset by the removal of testing in areas where previous year’s errors were not identified this year. ■ In Appendix 1 we repeat the same recommendation as contained in our 2013/14 certification of grants and returns report as this continues to apply. ■ There was another recommendation that was in our 2013/14 certification of grants and returns report. We report the status of this recommendation in Appendix 2. <p>Our work on other grant assurance engagements resulted in the following reports:</p> <ul style="list-style-type: none"> ■ Pooling of Housing Capital Receipts Return: we issued a qualified assurance report. ■ Teachers’ Pensions Authority Return: we issued an unqualified assurance report. ■ Homes and Communities Agency (HCA) Compliance Report: we issued a qualified assurance report. 	<p>Pages 4 – 6</p>

Headlines (continued)

Adjustments	Minor amendments were made to the 2014/15 Housing Benefit Subsidy claim as a result of our certification work this year. This is in line with the results of the audit of the 2013/14 Housing Benefit Subsidy claim where minor amendments were also required.	Pages 4 – 6
Fees	The indicative fee for our work on the Council’s 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £70,380. The actual fee for this work was the same as the indicative fee. Our fees for the other assurance engagements were subject to agreement directly with the Council.	Page 7

Overall, we carried out work on four grants and returns:

- one was unqualified with no amendment;
- two required a qualification to our certificate; and
- one was qualified and required minor amendment to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2014/15 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments arrangements					
■ Housing Benefit Subsidy	1				
Other assurance engagements					
■ Pooling of Housing Capital Receipts	2				
■ Teachers' pensions	3				
■ HCA compliance reporting	4				
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Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>Housing Benefit Subsidy</p> <p>The audit approach is mandated by the Audit Commission and DWP. Testing involves a 'discovery sample' of 20 cases for each benefit type (total 60 cases), with further testing of each cell affected by errors found either in the current year's discovery testing or in previous years, on the basis that errors identified in the previous year may recur in the current year. It is a consequence of the volume of testing that errors are repeatedly found. Due to the number of errors discovered in previous years, the Council is locked into testing a large volume of cases each year. The complexity of the housing benefits regulations and diverse claimant mix within Leicester City play a part in the number and types of errors found during testing. Action is being taken to address the causes, for example through training of assessors, but the Quality Assurance team cannot devote as much time as is required to putting things right. This requires continuous commitment to training and quality to minimise the number of recurring errors. We acknowledge that the Quality Assurance team have been proactive in correcting the errors that they discover.</p> <p>We have identified a number of issues that have been reported for a number of years, including the following:</p> <ul style="list-style-type: none"> - Misclassification of overpayments, in all benefit types; and - Incorrect inclusion of income, pensions and tax credits in benefit entitlement calculations. <p>Amendments to the claim were made where errors were identified and 100% of the affected case population could be tested.</p>	- £381 (net)
2	<p>Pooling of Housing Capital Receipts</p> <p>No amendments were made to the return. However we issued a qualified assurance report due to inclusion of £0.7 million of previous year expenditure which the Council informed us had not been claimed before because they account for schemes when they are completed. We also reported an area of uncertainty where the guidance was not clear whether expenditure reported on the return should only be that funded from capital receipts or should include other sources of funding as well, for example expenditure funded from borrowing.</p>	Nil
3	<p>Teachers' pensions</p> <p>We issued an unqualified assurance report and no amendments were made to the return.</p>	Nil

Summary of certification work outcomes (continued)

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
4	<p>HCA compliance reporting</p> <p>The Homes and Communities Agency (HCA) awards grants to organisations under the National Affordable Housing Programme (NAHP) and the Affordable Homes Programme (AHP). The Compliance Audit framework applies to organisations receiving grant to ensure that HCA's policies, funding conditions and procedures are followed.</p> <p>HCA chooses a number of authorities and a sample of schemes for each which will be subject to audit each year. For Leicester City Council, the sample included three properties under the empty homes scheme for which the Authority leases the property from a private landlord, refurbishes it and rents it to a tenant and one scheme which was covered by the traveller pitch funding arrangements.</p> <p>The findings of the audit were that most of the criteria required by HCA were in place. However, we reported a small number of procedural issues to HCA.</p>	+/- £n/a

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fee we charged for carrying out all our work on grants/returns in 2014/15 was £82,666.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	70,380	78,007
Pooling of Housing Capital Receipts	5,786	264
Teachers' pensions	3,500	3,000
HCA compliance reporting	3,000	n/a
Total fee	82,666	81,271

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2014/15 of £70,380. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £78,007. The reduction in the fee from 2013/14 is due to the 2014/15 fee being based on a lower level of work carried out.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for the 2014/15 Pooling of Housing Capital Receipts return were more than those in 2013/14 as the level of testing required by PSAA is directly related to the number of Right To Buy sales completed by the Authority (206 sales in 2014/15), whereas the work done in 2013/14 was under the Audit Commission's cyclical approach which only required a 'light touch' in 2013/14. In addition, we have had to agree the terms of the engagement directly with the Council, as opposed to previous years when the Audit Commission undertook all such arrangements on behalf of their suppliers.

Appendix 1 - Recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Housing Benefits					
<p>2014/15 Qualification Letter</p> <p>A high level of recurring errors continues to contribute to the amount of subsidy clawback each year.</p>	<p>By taking action to eliminate errors, the Council could reduce the amount of subsidy clawed back.</p>	<p>1</p> <p>Take prompt action to address matters in our housing benefits qualification letter, to reduce the level of errors being repeated in subsequent years.</p> <p>This recommendation has been made in previous years.</p>	<p>2</p>	<p>Action to address matters raised in the qualification letter is a process that is ongoing throughout the year. Regular reminders and refreshers are directed to staff through briefings and issuing notes to address the errors regularly occurring, for example earnings and overpayment classification. The Quality Assurance Team and Team Leaders are currently in the process of monitoring all officers on a rota basis to ensure all staff get their work checked regularly.</p>	<p>Quality Assurance and Performance Manager</p> <p>On-going</p>

in our 2013/14 Certification of Grants and Returns Annual Report we reported one recommendation from our 2012/13 Certification of Grants and Returns Annual Report which had not yet been implemented fully. We have detailed its current status below.

Prior year recommendation	Priority	Status as at January 2016	Management comments
Housing Benefits			
<p>1 Resume regular reporting to the Audit & Risk Committee on progress being made in response to the review of the benefits service in August 2009.</p> <p>We reported in our 2013/14 Certification of Grants and Returns Annual Report that as at January 2015, this recommendation had yet to be implemented.</p> <p><i>Management comments at that time were:</i></p> <p><i>“Although a number of measures have been put into place that have improved standards, a formal action plan has not been drawn up and is to be done this year. Reporting to the Audit & Risk Committee also needs to be resumed.”</i></p>	<p>2</p>	<p>This matter is still outstanding.</p> <p>No further action is proposed – see management comments.</p>	<p>We do not intend to start reporting to the Audit & Risk Committee at the current time. This is due to continued cuts to our administration grant irrespective of the continued unchanged caseload demands.</p> <p>We already closely monitor subsidy reports and returns continually throughout the year, reconciling at least monthly, to ensure their accuracy.</p>



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