



cutting through complexity™

Certification of claims and returns 2012/13

Leeds City Council

16 December 2013



The contacts at KPMG in connection with this report are:

John Prentice

Director

KPMG LLP (UK)

Tel: 0113 231 3935

Mob: 07827 939020

john.prentice@kpmg.co.uk

Alison Ormston

Senior Manager

KPMG LLP (UK)

Tel: 0113 231 3444

alison.ormston@kpmg.co.uk

Chris Hall

Assistant Manager

KPMG LLP (UK)

Tel: 0113 231 3493

Mob: 07921 450502

chris.hall2@kpmg.co.uk

| | Page |
|--|-------------|
| ■ Headlines | 2 |
| ■ Summary of certification work outcomes | 4 |
| ■ Fees | 6 |
| ■ Recommendations | 7 |
| ■ Prior year recommendations | 8 |

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, who is the engagement lead to the Authority (telephone 0113 231 3935, e-mail john.prentice@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

| | | |
|------------------------------------|--|--------------------|
| <p>Introduction and background</p> | <p>This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2012/13 we certified: <ul style="list-style-type: none"> – 2 grant claims with a total value of £341m; and – 3 returns with a total value of £389m. | <p>-</p> |
| <p>Certification results</p> | <p>We issued unqualified certificates for 4 claims and returns but qualification was necessary in 1 claim (1 claim in 2011/12).</p> <ul style="list-style-type: none"> ■ The Housing and Council Tax Benefit subsidy claim was qualified due to the following findings: <ul style="list-style-type: none"> ■ non-HRA rent rebates expenditure was mis-classified on the claim form; and ■ differences were identified between benefit paid per the claim form and benefit granted per the housing benefit system for rent allowances and HRA rent rebates. ■ Neither of these issues would lead to a significant reduction in subsidy. If DWP decide to apply the extrapolated error amounts included in the qualification letter to adjust subsidy, this would reduce subsidy by approximately £2k. ■ The subsidy reconciliation issue was reported in qualification letters in both 2010/11 and 2011/12. | <p>Pages 4 – 5</p> |
| <p>Audit adjustments</p> | <p>Adjustments were necessary to 3 of the Council's returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ The Housing & Council Tax Benefits claim was amended to increase subsidy claimed by £5k for HRA rent rebates and £1k for Council Tax Benefits. ■ The Pooling of Housing Capital Receipts return required amendment to correct the opening capital allowances figure and to include amounts set aside for payment of housing debt (value £1.8m), which had been excluded from the return in error. ■ The Teachers' Pensions form required amendment to correct rounding errors (value <£1). This was following a change to tiered contribution rates in 2012/13 and a requirement to present these on the EOYC return for the first time. This was a minor issue in what was a successful transition to tiered contributions, which has caused difficulties for other local authorities. | <p>Pages 4 – 5</p> |
| <p>The Council's arrangements</p> | <p>The Council has good arrangements for preparing its claims and returns and supporting our certification work with 1 minor improvement area identified:</p> <ul style="list-style-type: none"> ■ The Council should ensure the original signed claim forms are passed to the auditor when work commences. This is to ensure the working copy of the claim/return matches the claim/return we are certifying and ensures prompt despatch to the grant paying body upon completion of the work. | <p>Pages 4 – 5</p> |

Fees

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and set an indicative fee for the Council of £35,950. Our actual fee for the certification of grants and returns is estimated at £37,975. The increased fee is a result of:

- additional work carried out on the Housing and Council Tax Benefit subsidy claim to assess the extent of errors identified in initial testing of non-HRA rent rebates cases was carried out by the Council. We planned to place reliance on this testing, however, re-performance of this work identified errors in the testing, which required us to re-test a sample of claims ourselves.

Page 6

Overall, we certified 5 claims and returns:

- 2 were unqualified with no amendment;
- 2 were unqualified but required some amendment to the final figures; and
- 1 required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 claims and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

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 certificate | Significant adjustment | Minor adjustment | Unqualified certificate |
|--------------------------------------|-------------------|-----------------------|------------------------|------------------|-------------------------|
| Housing & Council Tax Benefit | 1 | | | | |
| Pooling of Housing Capital Receipts | 2 | | | | |
| National Non Domestic Rates return | | | | | |
| Teachers' Pensions return | 3 | | | | |
| Local Transport Plan: Major Projects | | | | | |
| | | 1 | 1 | 2 | 4 |

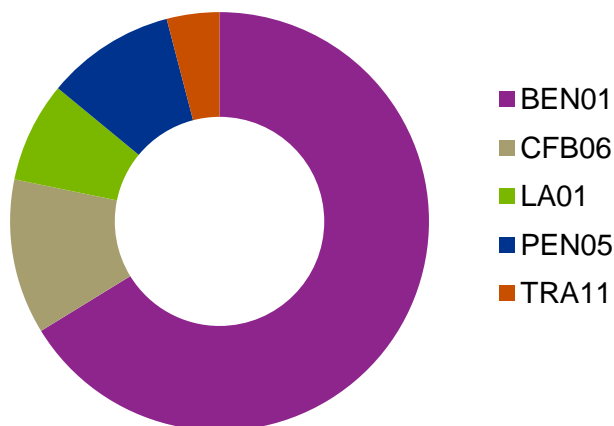
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

| Ref | Summary observations | Amendment |
|-----|--|-----------|
| 1 | <p>Housing and Council Tax Benefit Subsidy claim</p> <ul style="list-style-type: none"> Detailed testing of non-HRA rent rebate cases identified errors in the classification of the expenditure on the claim form. Further testing was carried out by the Council to assess the extent of the errors, however, re-performance of this work by KPMG identified mistakes in the further testing. We therefore had to carry out the testing ourselves, which has resulted in an increased fee application to the Audit Commission (Recommendation 1). The impact of finding the errors was that the claim had to be qualified. An extrapolated error, based on the results of the initial and further testing, was included in the qualification letter. Should the DWP choose to apply the extrapolated errors to the subsidy entitlement, there would be a small reduction of £2k. As in previous years, the claim was also qualified due to reconciliation differences between benefit paid per the claim form and benefit awarded per the benefits system. These differences are investigated by the Council to the point where it is uneconomical to allocate further resources to it. The differences (<£1k) are considered minor in relation to the value of the claim and the Council continues to work with software providers Capita to resolve the issue (Prior year recommendation 1). A small amendment was made to add an additional £5k to HRA rent rebates and £1k to Council Tax Benefit expenditure. | +£6k |
| 2 | <p>Pooling of Housing Capital Receipts return</p> <ul style="list-style-type: none"> Testing of the return identified 5 cells which required amendment. 4 of these amendments were required to correct the omission of amounts set aside for the payment of housing debt from the return. This totalled £1.8m. This outcome follows several errors being identified during testing in both 2010/11 and 2011/12 which required amendment. The Council should ensure that checks are in place to ensure the claim includes all required information (Prior year recommendation 2). | +£1.8m |
| 3 | <p>Teachers' Pensions</p> <ul style="list-style-type: none"> A change to the pension scheme in 2012/13 saw employee contributions tiered by salary. The Council had to adapt to this change by ensuring the payroll system could process the tiered contribution rates and report them accurately on the return. We are pleased to report that the Council adapted very well to the change and only minor amendments were required to correct rounding errors. | +£1 |

Our overall fee for the certification of claims and returns is estimated to be £37,975, which is £2,205 higher than the original estimated fee.

The Council can ensure it keeps within the original fee estimate by ensuring any further testing carried out by the benefits team is reliable.

Breakdown of certification fees 2012/13



| Breakdown of fee by claim / return | 2012/13 (£) | 2011/12 (£) |
|---|---------------|---------------|
| BEN01 – Housing and Council Tax Benefit | 25,155 | 37,628 |
| CFB06 – Pooling of Housing Capital Receipts | 4,549 | 6,716 |
| LA01 – National Non Domestic Rates return | 2,943 | 2,943 |
| PEN05 – Teachers’ Pensions return | 3,784 | 4,290 |
| TRA11 – Local Transport Plan: Major Schemes | 1,544 | 1,408 |
| HRA subsidy | N/A | 3,748 |
| Leeds Film Festival | N/A | 1,812 |
| Other claims and returns | N/A | 2,197 |
| Total fee | 37,975 | 60,742 |

The Audit Commission changed its fee regime for certifying claims and returns in 2012/13. It set an indicative fee for the Council of £35,950. Based on the actual work we carried out the actual fee we charged was higher than the indicative fee, subject to Audit Commission approval of the additional cost. The main reason for the fee exceeding the indicative fee was:

- We identified errors in the Housing & Council Tax Benefits claim and under the Commission’s HBCOUNT approach, the Council carried out more detailed testing of benefit cases. However, re-performance of this work identified mistakes made in the testing and we therefore had to carry out the work ourselves.

We recommend the Council takes the following steps to improve its support for our certification work, which should help minimise certification fees in the future:

- Ensure any further testing is carried out by suitable officers and arrangements are put in place to check the testing prior to passing for audit review.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

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> |
|--|---|---|

| Issue | Implication | Priority | Recommendation | Priority | Comment | Responsible officer and target date |
|--|--|----------|---|----------|---|--|
| Housing & Council Tax Benefit Subsidy | | | | | | |
| <p>Further testing arrangements</p> <p>Quality assurance arrangements should be improved over further testing carried out by the Council.</p> | <p>Further fees have been incurred due to mistakes made in the Council's testing which meant we had to carry out the testing ourselves</p> | 1 | <p>Further testing should be carried out by suitable skilled officers and arrangements should be put in place to ensure mistakes are identified and addressed prior to passing to audit for re-performance.</p> | 2 | <p>It is accepted that should "further testing" be required in any area of the subsidy claim in future years, that this work will be internally reviewed before passing it back to the auditor. It should be noted that the issue that required the "further testing" to be undertaken has been addressed, and a process introduced for 2013/14 that should ensure there is no recurrence</p> | <p>Responsible officer: Compliance manager, Welfare & Benefits.</p> <p>Target date: For the 2013/14 subsidy return</p> |
| General grant arrangements | | | | | | |
| <p>Signed claims/returns</p> <p>Original signed claims and returns should be passed to auditors upon commencement of the work.</p> | <p>Sign-off of some claims was delayed as we had to obtain the original signed claim form following completion of the work.</p> | 2 | <p>Upon commencement of the work, the grants file should include the original signed claim or return form.</p> | 3 | <p>Administrative process to be tightened.</p> | <p>Responsible Officer: Principal Accountant Corporate Financial Management.</p> <p>Target date: With immediate effect</p> |

Prior year recommendations

We made 2 recommendations in our 2011/12 Certification of Grants and Returns report. Where recommendations have not yet been implemented fully we have detailed their current status below.

| Prior year recommendation | Priority | Status as at December 2013 | Management comments |
|--|----------|---|---|
| System errors | | | |
| <p>1 Housing & Council Tax Benefit subsidy claim – reconciliation process</p> <p>The Authority should review this reconciliation within the Capita system and endeavour to liaise with Capita in order to prevent this error from re-occurring.</p> | 3 | <p>Qualification was again required due to the reconciling differences within HRA rent rebates and rent allowances. These differences were <£1k, which is not a significant value in relation to the value of the claim.</p> | <p>The imbalance of <£1k was part of a grant claim of £337m, and of the 4 reconciliations required within this value, two exactly reconciled</p> <p>Advice received from Capita, the software supplier, with regard to possible causes of imbalances has already been implemented for 2013/14, and should help towards the reconciliation process.</p> |
| Procedural errors | | | |
| <p>2 Pooling of Housing Capital Receipts</p> <p>Quality assurance arrangements should be implemented to ensure that grant claim forms are complete and finalised prior to submission for certification. This will assist in the delivery of an efficient certification process.</p> | 3 | <p>Amendments were required to correct information recorded incorrectly in the return and to correct information missed out entirely, suggesting quality assurance arrangement still require implementing</p> | <p>System improvements have allowed costs to be more accurately recorded against individual properties. As the claim allows costs over the last 3 years to be offset against the capital receipts, officers have been reviewing such costs to improve the accuracy of the return. Further quality assurance to be implemented.</p> |



cutting through complexity™

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).