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Certification of grants and returns 2010/11

Leeds City Council

January 2012

Contents

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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 Mike McDonagh, who is the engagement leader to the Authority 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Headlines

Introduction and background	**This report summarises the results of work on the certification of the Authority's 2010/11 grant claims and returns.** ■ For 2010/11 we certified: – 14 grants with a total value of £42m (3 of which related to 2009/10); and – 7 returns with a total value of £755m. ■ We also recertified from prior years: – 3 returns with a total value of £28m. These were recertified as additional eligible expenditure has been identified by the Authority. ■ There are two further 2010/11 grants to be audited in early 2012, which are not reflected in this report.	-
Certification results	**Of the 21 grants and returns certified in 2010/11 we issued unqualified certificates for 18, but qualifications were necessary in three cases; two qualifications related to 2010/11 claims and one related to an outstanding 2009/10 claim.** **There has therefore been a consistent number of qualifications in 2009/10 and 2010/11, with two instances in each year. The two 2010/11 qualifications were:** ■ Housing & Council Tax Benefit Return - there were very minor reconciliation differences between the benefit granted and the benefit paid for HRA Rent Rebates and Rent Allowances. The claim was qualified for the same reason in 2009/10. In addition, two Non HRA Rent Rebate cases were found to have been underpaid as a result of the Authority inputting the eligible rent incorrectly, however this did not impact upon subsidy. Two overpayments of Council Tax Benefit were also identified as a result of income being input incorrectly; and ■ Capita Teachers' Pensions by Education Leeds - there were two members of staff who were incorrectly omitted from the scheme. **The 2009/10 claim that was qualified during 2010/11 was:** ■ Access to Employment 2009/10 claim – we were unable to verify the accuracy of the claim for £18,738 Leeds Ahead costs. There was also no adequate supporting documentation in respect of £353 of the 4 Families scheme staff costs. This grant is from the previous year and was still outstanding at the time of reporting on the 2009/10 grants and returns. Members were notified at that time that this claim was likely to be qualified but it has been included in this report as it was certified during 2010/11.	**Pages 4 – 6**

Headlines

Audit adjustments	**Adjustments affecting the final amount on the claim or return were necessary to three of the Authority's grants and returns as a result of our certification work this year. This compares to adjustments to two grants and returns in the prior year.** ■ Sure Start, Early Years & Childcare Grant – discovery of an ineligible prepayment led to a net decrease in eligible expenditure of £19,945. ■ HRA Subsidy – we identified that a minor adjustment to the Capital Financing Requirement used to calculate the subsidy was required. This resulted in a net increase in the subsidy entitlement amounting to £540,858. This equates (approximately) to the Authority's annual audit fee. ■ Pooling of Housing Capital Receipts 2010/11 - the return was amended for additional eligible overhead and capital improvement costs identified by the Authority. There was no adequate supporting documentation for £5,380 buy back of Right to Buy properties therefore this expenditure was removed from the claim. The Authority also made adjustments to the 2007/08, 2008/09 and 2009/10 returns. The Authority had underpaid its pooling liability for 2010/11, therefore further costs were identified and amended for. The result of all these amendments was an overall net reduction of the 2010/11 pooling liability of £4,930.50.	**Pages 4 – 6**
The Authority's arrangements	**The Authority, generally, has adequate arrangements for preparing its grants and returns and supporting our certification work. Our findings were that:** ■ the Authority has effective central co-ordination and communication ■ a large majority of claims and returns were submitted on time ■ the majority of working papers were of a good standard however for some of the grants and returns improvements could be made to ensure all figures are adequately supported . This would reduce the likelihood of required adjustments to grants and returns in future years.	
Fees	**Our overall fee for the certification of grants and returns completed to date for 2010/11 is £96,906 compared to £119,765 of fees raised for 2009/10.** ■ The main reason for this decrease since prior year is due to the decrease in the number of claims audited; ■ Including the three prior year returns which were recertified in 2010/11, the average cost per grant has reduced from £4,436 in 2009/10 to £4,038 in 2010/11.	**Page 7**

Summary of certification work outcomes

Overall, we certified 21 grants and returns:

- **9 were unqualified with no amendment;**
- **6 were unqualified but required some amendment to the claim form which did not affect the amount claimed**
- **3 were unqualified but required some amendment to the final figures; and**
- **3 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 Authority's 2010/11 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.

A qualification means that issues were identified concerning the Authority'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 Authority to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and Council Tax Benefits	1	1		1	
Capita Teachers' Pension by Education Leeds	2	1			
Access to Employment 2009/10 Claim	3	1			
Surestart, Early Years & Childcare Grant	4		1		1
HRA Subsidy	5		1		1
Pooling of Housing Capital Receipts	6		1		1
Other Claims - adjusted				6	6
Other Claims - unadjusted					9
		3	3	7	18

Summary of certification work outcomes (cont.)

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	**Housing & Council Tax Benefits** ■ The return was qualified due to three issues – there were: i) minor reconciliation differences between the benefit granted and the benefit paid for HRA Rent Rebates and Rent Allowances; ii) underpayment of Non HRA Rent Rebate cases due to processing errors (with no impact on subsidy); and iii) claim processing errors on Council Tax Benefits for which the potential impact on subsidy was unknown. ■ The reconciliation difference between benefit granted and benefit paid is an ongoing issue and was qualified for in the previous year. ■ The return also had minor amendments made to the Council Tax subsidy due to a small number of claim processing errors identified through our audit testing. Similar amendments were made to the return in the prior year.	+£7
2	**Capita Teachers' Pension by Education Leeds** ■ The return was qualified as there was no evidence that two staff members for whom Pension payments had not been made had opted out of the scheme. One member of staff completed the opt out form in retrospect however the other staff member did not want to opt out of the scheme and therefore Education Leeds contacted TPA to arrange full payment for this employee. ■ If the Authority does not address this in future there is a risk that they will have to pay extra Pensions costs (including the employee costs) for employees who have not opted out of the scheme. ■ There was no similar qualification issue in the prior year.	n/a
3	**Access to Employment 2009/10 claim** ■ The claim was qualified as there was insufficient evidence to support £18,738 of the Leeds Ahead costs and £353 of the 4 Families scheme costs. ■ The Authority still received the grant funding for the Leeds Ahead costs, however it is recommended that sufficient and appropriate evidence is retained of all expenditure incurred by the Authority against which any grant funding is to be claimed. ■ There was no similar qualification issue in the prior year and this is the final year of funding for this claim.	n/a

Summary of certification work outcomes (cont.)

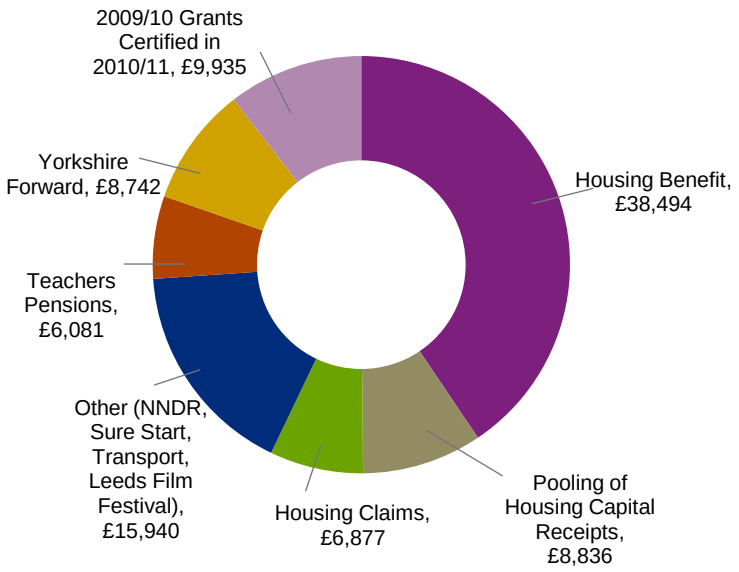
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
4	**Sure Start, Early Years and Childcare Grant** ■ This claim was amended as there was insufficient evidence that a prepayment of £19,945 was allowed within the terms of the grant ■ The grant funding body may reclaim some of the funding if this issue is not addressed for future claims.	- £19,945
5	**HRA Subsidy** ■ Our work identified that this claim required amendment as the most recent figure for the Capital Financing Requirement had not been used in the form for the calculation. The HRA Subsidy was therefore increased by £540,858, resulting in a significant increase in the payment to the Authority. ■ There were no amendments to this claim in the prior year that impacted upon subsidy. As 2011/12 is the last year that the Authority will be in receipt of HRA Subsidy we expect that the final audit of this claim will take place during 2012.	+£540,858
6	**Pooling of Housing Capital Receipts** ■ The Authority identified additional costs which were eligible as allowable deductions after the return had already been prepared in respect of overheads (£1,526) and capital improvements (£3,825). ■ There was no adequate supporting documentation for £5,380 costs relating to buy back of form Right to Buy properties so these costs had to be removed. However, the Authority identified additional eligible costs of £1,330.05 which were eligible and adequately supported so that the net reduction in eligible costs was £4,049.95. Only 47% of such costs are allowable deductions so this resulted in a - £1,903.48 adjustment to the return. ■ Following adjustments to the three previous year's claims, the Authority's pooling payments for 2010/11 were adjusted to claw back money owed. However, the Authority underpaid in error and was liable to pay interest. We identified further costs relating to the retention of costs relating to the improvement of dwellings (£10,777). This was used to offset the underpayment. ■ The Authority requested that we recertify the 2007/08, 2008/09 and 2009/10 returns as it had identified additional allowable deductions which reduced its liability. However the Authority needs to ensure that such adjustments are calculated accurately in the future to ensure that the current year pooling liability payments are made accurately and on time, so as to avoid late interest charges.	-£4,930.50

Fees

This chart and table summarises our overall fee for the certification of grants and returns completed as at 31 December 2011 for 2010/11

Breakdown of certification fees 2010/11



Breakdown of fee by grant/return	2010/11 (£)	2009/10 (£)
Housing Benefit	38,494	40,681
Pooling of Housing Capital Receipts	8,836	4,349
Housing Claims	6,877	17,535
Other (NNDR, SureStart, Transport, Leeds Film Festival)	15,940	17,457
Teachers Pensions	6,081	6,312
Yorkshire Forward	8,742	29,664
Prior year grants certified in year	9,935	3,767
Total fee	**94,904**	**119,766**

The main reasons for the fee difference between 2010/11 and 2009/10 are shown below:

- Fewer Yorkshire Forward grants required audit in the year. 10 Yorkshire Forward grants required audit in 2010/11 compared to 14 in 2009/10;
- Three prior year Pooling of Housing Capital Receipts claims were recertified in year;
- Less detailed testing was required over the Housing Claims (due to changes in the claim size and/or cycle);
- Three 2009/10 grant claims were certified in year.

It should be noted, however, that we have been able to show reduced costs to the Authority on housing benefits, teachers pensions, disabled facilities, Holbeck Urban Village and the SureStart grant audits amongst others due to increased efficiency, and we decreased the management time cost in line with the decrease in grant volume.

Recommendations

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		
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.	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.	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.

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
System Errors						
Reconciliation of HRA Rent Rebates and Rent Allowances We found minor reconciliation differences between the benefit granted and the benefit paid for HRA Rent Rebates and Rent Allowances. The total value of which was £126.	If the benefit paid and the benefit granted per the subsidy system cannot be reconciled we must qualify our audit certification which may lead to recovery of monies by the granting body.	1	The Authority should review this reconciliation within the Capita system and liaise with Capita in order to prevent this error from re-occurring.	3	Regular meetings are held with Capita to try and identify causes of the reconciliation differences. From these meetings there has been a number of additional system reconciliations introduced, along with a regular review of system program outputs.	Officer: D Jackman (Compliance manager, Leeds revenues and benefits service) Date: Ongoing

Recommendations (cont.)

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
Manual Clerical Errors						
Processing Errors for Benefit Claims We found examples of three processing errors in benefit claims which led to both overpayment and underpayment of benefits. One operator had used an incorrect rents sheet for inserting eligible rents onto the system.	If the benefit paid to the claimants is greater than entitlement the Authority may not be able to recover these monies. We may need to qualify our audit certification whether there is either over or under payment.	**2**	There are a number of controls over benefits claims, including a Quality Assurance Team who perform checks. The Authority should review the adequacy of these checks in identifying processing errors, particularly systematic errors, which may result in the benefit being over or under paid.	2	Immediately following the "sign off" of the claim, officers reviewed the qualifications. A meeting is scheduled, between the Compliance Manager and the Section Head, with responsibility for the Quality Assurance Team, to review the current checking procedures, and identify any areas that could be added or changed so as to provide improved assurance.	Officer: D Jackman (Compliance manager, Leeds revenues and benefits service) Date: Ongoing
Procedural Errors						
Teachers' Pension Scheme Opt Out Forms We found two members of staff had not been included in the Pension scheme despite the fact that they had not completed opt out forms.	If staff members are not included in the Pension scheme and have not opted out then the Authority may be liable to top up both the employees and employers contributions for these individuals. Also if scheme requirements are not complied with we may have to qualify our audit certification on this basis.	**3**	The Authority should ensure that all staff members not included in the Pension scheme have completed an opt out form.	2	Processes now amended to prevent a reoccurrence.	Officer: Principal Payroll Team Manager Date: Process amendments implemented

Recommendations (cont.)

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
Access to Employment – Insufficient Evidence to Support Scheme Costs There was insufficient evidence to support £18,738 of Leeds Ahead costs and £353 of 4 Families scheme costs.	If there is insufficient evidence to support expenditure included in grant claims we will require the expenditure to be removed from the claim, and therefore the costs will not be recovered.	4	Adequate supporting documentation for all grant expenditure should be retained.	1	As previously reported to members this was due to Leeds Ahead failing to provide sufficient supporting evidence. Despite the qualification, the grant was still received and paid over to Leeds Ahead. Internal processes for all grant claims require officers to supply supporting evidence in order to validate claims. Quality reviews of working papers are undertaken before claims are submitted to KPMG.	Officer: All grant compiling officers Date: Ongoing
Sure Start, Early Years and Childcare Grant – Ineligible expenditure We found a prepayment included within the grant expenditure which was not eligible as per the terms of the grant.	If ineligible expenditure is included within grant claims then we will require the Authority to amend these.	5	The eligibility of expenditure should be monitored against the terms and conditions of the grant. If this is deviated from, written permission should be obtained from the funding body.	2	Officers had agreed with the funding body to include the pre-payments within the grant claim. Unfortunately, the "approval" was vaguely worded and the people involved had retired both from the funding body and the Council's own commissioning team. *Continued overleaf*	Officer: All grant compiling officers Date: Ongoing

Recommendations (cont.)

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
					Consequently the payments were not allowed as they would be ineligible under the original terms of the grant. Internal processes for all grant claims require officers to ensure all expenditure is eligible under the terms of the grant.	
Pooling of Housing Capital Receipts Some costs included in the return could not be supported. The client made adjustments to returns dating back four years to include allowable deductions which had been overlooked previously.	If unsupported expenditure is included within grant claims then we will require the Authority to amend these. Making several adjustments to prior year claims can be complicated and can result in errors being made.	**6**	Adequate supporting documentation for all claimed expenditure should be retained. 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.	3	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 improvements to the adequacy of supporting documentation and quality assurance to be considered.	Officer: Senior Financial Manager, Financial Administration, E&N Date: 4th Qtr return

Prior year recommendations

We made a recommendation in our 2009/10 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 2011	Management comments
Central Co-ordination of Grant Claims and Returns				
1	**Reconciliation of HRA Rent Rebates** We found minor reconciliation differences between benefit granted and benefit paid for housing revenue account (HRA) Rent Rebates. The total value of this difference was £171. This is the same reason for which this claim was qualified last year.	3	See current year recommendations.	See current year recommendations.