

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27th February 2012

Subject: KPMG Certification of grants and returns 2010/11

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. KPMG have stated that the Council has adequate arrangements for preparing its grants and returns. Of the 21 claims and returns audited in respect of 2010/11, two claims were qualified and three required audit adjustments.
2. As in previous years the Housing & Council Tax Benefit Return was qualified due to minor reconciliation issues. The second qualification reflected minor weaknesses in the control environment which led to the omission of two teachers from the pensions return. This has since been amended and the process improved to prevent any reoccurrence of the omissions. These qualifications had no financial impact on the Council.
3. Of the three audit adjustments, two were minor and reflect small control weakness. The third adjustment amounted to £0.5m and was in respect of the Housing Subsidy Claim. This was the first time this type of adjustment has been required on the subsidy return and was due to the wrong Capital Financing Requirement (circ. £1.6bn) being used. Improvements to the control environment will not be required as this was the last year of the subsidy return.
4. All three audit adjustments were made to returns and there was no financial impact on the Council.

Recommendations

5. Members are asked to note the results of the 2010/11 audit of grants and returns.

1 Purpose of this report

- 1.1 To inform members on the result of the work KPMG have carried out on the certification of grant claims in respect of 2010/11.

2. Background information

- 2.2 Each year the Government determines which grant claims require audit certification. The external auditors of each Local Authority are informed of these auditable grants by way of a register supplied by the Audit Commission. Corporate Financial Management provide a central coordination role to ensure all relevant working papers and grant returns are available for the Council's external auditors in order to meet the Government timetables.

3 Main issues

- 3.1 The attached report highlights the audit issues identified in respect of the 2010/11 grants and returns. In addition it reports on any issues relating to 2009/10 returns which had not been completed when the 2009/10 report was presented to this Committee in March.
- 3.2 In March 2010 members were informed that, although the audit was not yet complete, it was likely that the Access to Employment claim would be qualified due to insufficient evidence being given by Leeds Ahead. This report confirms the qualification but members should note that the money has now been received by the Council and paid over to Leeds Ahead.
- 3.3 In respect of 2010/11 the report confirms that the Council has adequate arrangements for preparing the required grant claims and that a large majority of these claims were submitted on time and with a good standard of working papers.
- 3.4 The report does however identify two qualifications in respect of 2010/11 returns:
 - 3.4.1 As was the case last year, the Housing & Council Tax Benefit return was qualified due to minor reconciliation differences and a number of small processing errors. Members should note that KPMG are required to qualify a return if the systems used to support the claim are not fully reconciled. System improvements have now enabled two of the four areas used in the Housing & Council Tax Benefit return to be fully reconciled. The combined variance on the other two system areas was just £126 within a total claim of £311m. These variances had no impact on the claim received by the Council.
 - 3.4.2 The second qualification is in respect of the Capita Teachers' Pension return. This was due to minor processing weakness which resulted in two teachers being incorrectly treated in respect of this return. In both cases the data was corrected and the process has now been amended to prevent any reoccurrence of the errors.
- 3.5 KPMG's report also highlights areas where significant adjustment were required to a claim or return. An audit adjustment is determined as significant if it impacts on the amount of money the Council would otherwise receive. For 2010/11 there were three such adjustments. Two of which were minor and related to general weaknesses in

the processes which are used to compile returns. All officers who compile claims are to be advised as to the audit requirements and quality controls needed in order to minimise such errors occurring in the future.

- 3.6 The third adjustment was in respect of the HRA subsidy return and amounted to an adjustment of £541k within a total net claim of £26.7m. The adjustment related to the inclusion of the wrong Capital Financing Requirement (CFR) figure in the claim calculations. The CFR figure (£1.6bn) can vary for a number of reasons and movements of £50 - £70m are not uncommon. As a consequence of the size and scale of any potential movements in the CFR there is a limit to the ability for quality assurance checks to identify when an incorrect figure has been used. This is the first time the CFR figure has been incorrectly recorded in the claim but as this is the last subsidy claim to be made by the Council, improvements to the process will not be required.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This is a factual report based on evidence provided by the external auditors and consequently no public, Ward Member or Councillor consultation or engagement has been sought.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This is a factual report based on evidence provided by the external auditors and has no direct implications for equality, diversity, cohesion and integration.

4.3 Council Policies and City Priorities

- 4.3.1 Under the Committee's terms of reference, members are required to receive external audit reports in order to gain the necessary assurance regarding governance. The report from KPMG provides assurance that all grant claims received to date have been certified by the auditors and any audit adjustments actioned.

4.4 Resources and Value for Money

- 4.4.1 Members should note the audit fee of £95k for certification of grants and returns for the financial year 2010/11.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 As this is a factual report based on evidence provided by the external auditors none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

4.6 Risk Management

- 4.6.1 All recommendations contained within the Certification of Grants and Returns 2010/11 report have been considered and appropriate actions agreed.

5 Conclusions

- 5.1 All grant claims and returns for 2010/11, received to date, have been successfully completed and final approved claims submitted to the relevant granting organisation.
- 5.2 The audit process identified two qualification issues and required three returns to be adjusted.
- 5.3 Weaknesses in the control environment have been evaluated and changes have been introduced where appropriate.
- 5.4 External audit certification remains a valuable part of the control process and helps ensure that correct money is received by the Council.

6 Recommendations

- 6.1 Members are asked to note the results of the 2010/11 audit of grants and returns.

7 Background documents

- 7.1 Register of grant claims
- 7.2 Individual grant returns and associated working papers.
- 7.3 Corporate Governance & Audit Committee March 2010 - KPMG report: Certification of grants and returns 2009/10.