



*cutting through complexity™*

# Certification of grants and returns 2011/12

Leeds City Council

January 2013



**The contacts at KPMG in connection with this report are:**

**Mike McDonagh**

*Partner*

*KPMG LLP (UK)*

Tel: + 44 (0) 207 694 5546

[michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@kpmg.co.uk)

**Steve Clark**

*Director*

*KPMG LLP (UK)*

Tel: + 44 (0) 113 254 2910

[stephen.clark@kpmg.co.uk](mailto:stephen.clark@kpmg.co.uk)

**Heather Garrett**

*Senior Manager*

*KPMG LLP (UK)*

Tel: + 44 (0) 161 246 4294

[heather.garrett@kpmg.co.uk](mailto:heather.garrett@kpmg.co.uk)

**Charlotte George**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: +44 (0) 0113 254 2836

[charlotte.george@kpmg.co.uk](mailto:charlotte.george@kpmg.co.uk)

	<b>Page</b>
■ Headlines	2
■ Summary of certification work outcomes	4
■ Fees	7
■ Recommendations	8
■ Prior year recommendations	10

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 Mike McDonagh, who is the engagement leader to the Authority (telephone (0) 207 694 5546, e-mail [michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@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](mailto: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](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

<p><b>Introduction and background</b></p>	<p><b>This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns.</b></p> <ul style="list-style-type: none"> <li>■ For 2011/12 we certified:             <ul style="list-style-type: none"> <li>– Three grants with a total value of £8.4 million (one of which related to 2010/11); and</li> <li>– Five returns with a total value of £657.8 million.</li> </ul> </li> <li>■ We also recertified two returns in respect of prior years with a total value of £7.7 million. These were recertified as additional eligible expenditure had been identified by the Authority.</li> </ul>	<p>-</p>
<p><b>Certification results</b></p>	<p><b>Of the eight grants and returns certified in 2011/12 we issued unqualified certificates for seven, but we qualified one return. This compares to three qualifications and 18 unqualified grants and returns in the prior year.</b></p> <p>The qualification was in respect of the Housing &amp; Council Tax Benefit Return. There were minor reconciliation differences between the benefit granted and the benefit paid for Rent Rebates and Rent Allowances. The total value of this was £342. We identified that one Non-HRA Rent Rebate case was found to have been underpaid as a result of the Authority inputting the eligible rent incorrectly, however this did not impact upon subsidy. The claim was also qualified for these same two reasons in 2010/11.</p>	<p><b>Pages 4 – 6</b></p>
<p><b>Audit adjustments</b></p>	<p><b>Adjustments affecting the final amount on the grants or return were necessary to one of the Council's grants and returns as a result of our certification work this year.</b></p> <ul style="list-style-type: none"> <li>■ Housing &amp; Council Tax Benefit Return - the return was amended for:             <ul style="list-style-type: none"> <li>■ a duplicate payment identified by the Council;</li> <li>■ a correction of a system error on Council Tax Benefit overpayment types identified by the Council;</li> <li>■ a reconciliation difference identified by the Council; and</li> <li>■ an inputting error identified by KPMG.</li> </ul> </li> <li>■ The result of these amendments was an overall net increase of the subsidy by £3,460.</li> </ul>	<p><b>Pages 4 – 6</b></p>
<p><b>The Council's arrangements</b></p>	<p><b>The Council has adequate arrangements for preparing its grants and returns and supporting our certification work. Our findings were that:</b></p> <ul style="list-style-type: none"> <li>■ the Authority has effective central co-ordination and communication</li> <li>■ a large majority of claims and returns were submitted on time</li> <li>■ the majority of working papers were of a good standard, however, for some of the grants and returns improvements could be made to identify all eligible costs in year. This would reduce the likelihood of required adjustments to grants and returns in future years.</li> </ul>	

<b>Fees</b>	<p><b>Our overall fee for the certification of grants and returns completed to date for 2011/12 is £60,742 compared to £94,904 of fees raised for 2010/11.</b></p> <ul style="list-style-type: none"><li>■ The main reason for this decrease since prior year is due to the decrease in the number of claims audited.</li><li>■ A detailed breakdown of the fees for each claim is included on page 7 of this report.</li></ul>	<b>Page 7</b>
-------------	---	---------------

Overall, we certified 8 grants and returns in 2011/12:

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

We also recertified two returns from prior years which had been adjusted by the Authority:

- Both were unqualified with no further audit amendments.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2011/12 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 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	1	1		
Pooling of Housing Capital Receipts (2009/10, 2010/11 & 2011/12)	2			2	2
HRA Subsidy	3			3	3
Leeds Arena Project	4			4	4
NNDR					5
Teachers' Pension					6
Leeds Film Festival					7
Transport (A65 Bus Initiative)					8
		1	1	2	7

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><b>Housing &amp; Council Tax Benefit</b></p> <ul style="list-style-type: none"> <li>■ The return was amended due to four issues. The three following issues were identified by the Authority: <ul style="list-style-type: none"> <li>■ a duplicate payment which had not correctly been picked up by system reports;</li> <li>■ system errors on Council Tax Benefit overpayment types; and</li> <li>■ a reconciliation difference between benefit granted and benefit paid per the subsidy system.</li> </ul> </li> <li>■ KPMG also identified an inputting error.</li> <li>■ The return was qualified to due two issues: <ul style="list-style-type: none"> <li>■ there were minor reconciliation differences between the benefit granted and the benefit paid for Rent Rebates and Rent Allowances; and</li> <li>■ an underpayment of Non HRA Rent Rebate was identified in our testing. This was caused by processing errors. This had no impact on subsidy.</li> </ul> </li> <li>■ Both qualification issues were also present in the prior year.</li> </ul>	<p><b>+£3,460</b></p>
2	<p><b>Pooling of Housing Capital Receipts</b></p> <ul style="list-style-type: none"> <li>■ The Authority identified additional costs which were eligible as allowable deductions after the 2009/10 and 2010/11 returns had already been prepared. For 2009/10 this comprised of £13,891 of improvement costs. For 2010/11 this comprised of £560 improvement costs and £1,832 of administration expenditure. This resulted in an amendment to the original return submissions.</li> <li>■ The Authority needs to ensure that such costs are identified on a more timely basis in the future to ensure that the current year pooling liability payments are made accurately and on time.</li> <li>■ This issue was also identified in the prior year.</li> <li>■ We also identified that the number of dwellings disposed of under the right to buy scheme on the 2011/12 claim form had been understated by 2 properties. This amendment did not have an impact on the amount claimed.</li> </ul>	<p><b>-£1,794 (2010/11)</b></p> <p><b>-£10,418 (2009/10)</b></p> <p><b>-£0 (2011/12)</b></p>

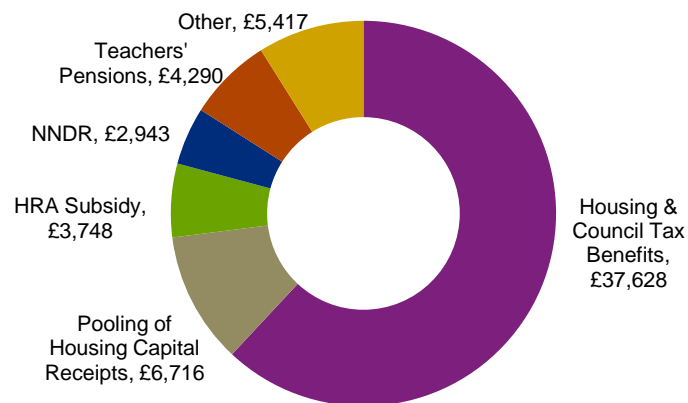
## Summary of certification work outcomes (continued)

Ref	Summary observations	Amendment
3	<p><b>HRA Subsidy</b></p> <ul style="list-style-type: none"> <li>■ A minor amendment was required as the number of dwellings at 1 April 2011 and 31 March 2012 had been overstated by 6 properties.</li> <li>■ This did not have any impact on the level of subsidy and the claim was unqualified.</li> <li>■ This issue was not identified in the prior year.</li> </ul>	£0
4	<p><b>Leeds Arena</b></p> <ul style="list-style-type: none"> <li>■ The Authority identified that the claim form did not include all eligible expenditure on the project during 2011/12. The amendment resulted in an increase of £1,295,450.19 to the amount of eligible expenditure reported and to the amount of funding provided by the Authority.</li> <li>■ There was no impact on the amount claimed from Yorkshire Forward as the maximum amount had already been claimed.</li> <li>■ This was the first year that the claim has been audited.</li> </ul>	£0

This chart and table summarises our overall fee for the certification of grants and returns completed as at 31 December 2012 for 2011/12.

Our overall fee for the certification of grants and returns is £60,742 and has been contained within the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return

	2011/12 (£)	2010/11 (£)
Housing and Council Tax Benefit	37,628	38,494
Pooling of Housing Capital Receipts	6,716	8,836
HRA Subsidy	3,748	4,163
NNDR	2,943	4,676
Teachers' Pensions	4,290	6,081
Leeds Film Festival	1,812	1,933
Transport (A65 Bus Initiative)	1,408	5,170
Other grants and returns	2,197	25,551
<b>Total fee</b>	<b>60,742</b>	<b>94,904</b>

The main reasons for the fee difference between 2011/12 and 2010/11 are shown below:

- Less detailed testing was required over the NNDR return and Transport grant as we were able to place reliance on the control environment and the results of our testing in previous years;
- Only one Teachers' Pensions return required audit in 2011/12 (compared to two in the prior year) as a result of Education Leeds coming back within the Authority; and
- Due to the wind-down of Yorkshire Forward only one grant required audit in 2011/12 compared to 10 in 2010/11.



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><b>1</b> 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><b>2</b> 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><b>3</b> 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	Recommendation	Priority	Comment	Responsible officer and target date
<b>System Errors</b>					
<p><b>Reconciliation of HRA Rent Rebates and Rent Allowances</b></p> <p>We found minor reconciliation differences between the benefit granted and the benefit paid for Rent Rebates and Rent Allowances. The total value of which was £342.</p>	<p>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.</p>	<p><b>1</b> 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>	<p><b>3</b></p>	<p>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.</p>	<p>Officer: D Jackman (Compliance manager, Leeds revenues and benefits service)</p> <p>Date: ongoing</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<b>Procedural Errors</b>					
<p><b>Pooling of Housing Capital Receipts</b></p> <p>The Authority made adjustments to returns dating back four years to include allowable deductions which had been overlooked previously.</p>	<p>Making several adjustments to prior year claims can be complicated and can result in errors being made.</p>	<p>2</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>	<p>3</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 improvements to the adequacy of supporting documentation and quality assurance have now been introduced. Officer: Senior Financial Manager, Financial Administration, E&amp;N.</p>	<p>Officer: Senior Financial Manager, Financial Administration, E&amp;N.</p> <p>Date: 4<sup>th</sup> quarter return</p>

We made 7 recommendations in our 2010/11 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 January 2013	Management comments
<b>System Errors</b>			
<p><b>1 Reconciliation of HRA Rent Rebates and Rent Allowances</b></p> <p>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.</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>	<p>3</p>	<p>We have raised this recommendation again in the current period. See page 9 for further details.</p>	<p>See current year recommendations.</p>
<b>Procedural Errors</b>			
<p><b>2 Pooling of Housing Capital Receipts</b></p> <p>The Authority made adjustments to returns dating back four years to include allowable deductions which had been overlooked previously.</p> <p>Making several adjustments to prior year claims can be complicated and can result in errors being made.</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>	<p>3</p>	<p>We have raised this recommendation again in the current period. See page 9 for further details.</p>	<p>See current year recommendations.</p>



*cutting through complexity™*

© 2012 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).