



ISLINGTON

AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

28 January 2016

ADDITIONAL DESPATCH

Please find enclosed the following items:

Item 1 External Auditor Reports

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Enquiries to : Jackie Tunstall
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Report of: Corporate Director of Finance

| Meeting of | Date | Agenda Item | Ward(s) |
|-----------------|-----------------|-------------|---------|
| Audit Committee | 28 January 2016 | | All |

SUBJECT: External Auditor Reports

1. Synopsis

- 1.1 KPMG has produced two reports. One setting out the outcome of their grants audit work and the second a report updating the committee on elector queries to date.

2. Recommendations

- 2.1 To note the attached grants work and elector queries reports from KPMG.

3. Background

- 3.1 KPMG provides various reports to the Audit Committee throughout the year. The following reports are included on the agenda for this meeting:

- A. KPMG Annual Report on grants and returns work 2014/15
- B. Elector queries – Audit Committee update

4. Implications

4.1 Financial Implications:

These are contained within the body of the report.

4.2 Legal Implications:

There are no legal implications.

4.3 Environmental Implications:

There are no direct environmental implications.

4.4 Equalities Impact Assessment:

An equality impact assessment is not relevant as this is a report from an external body.

4.5 Resident Impact Assessment

There are no direct resident impact implications arising from this item.

5. Conclusion and reasons for recommendations:

5.1 The Committee is asked to note the contents of the attached reports.

Appendices:

- KPMG Annual Report on grants and returns work 2014/15
- Elector queries – Audit Committee update

Background papers: (available online or on request)

- None

Final Report Clearance:

Signed by:



Corporate Director of Finance and Resources

20 January 2016

Date

Received by:

Head of Democratic Services

Date

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KPMG Annual Report on grants and returns work 2014/15

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London Borough of Islington

January 2016

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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

| | | |
|--|--|--------------------|
| <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. This includes the work we have completed under the Public Sector Audit Appointment (PSAA) 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 £207.8 million. ■ Under separate assurance engagements we certified two claims/returns as listed below: <ul style="list-style-type: none"> – Pooling of housing capital receipts: value of receipts £41.5 million; and – Teachers' pensions return: value of contributions £13.8 million. | <p>-</p> |
| <p>Certification results</p> <p>Page 5</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"> ■ Our initial testing of 60 cases identified three manual errors in testing of non-HRA rent rebates (one incorrect working tax credit; one incorrect non-dependent deduction; one incorrect rent) and one manual error in testing of rent allowances. ■ Although we qualified the claim, the impact of this was relatively small based on the claim value of £207.8 million. The value of actual errors found was £169. An extrapolation of the errors would overstate grant expenditure by £3,777. ■ This represented an improvement on 2013-14, when five errors were reported in our letter. <p>Our work on the other grant assurance engagements resulted in the following reports:</p> <ul style="list-style-type: none"> ■ The Pooling of Housing Capital Receipts return was certified with minor amendments and no qualification; and ■ The Teachers' Pensions return was certified with significant amendments. The Council undertook extensive additional work to avoid a qualification; with the result that the return was certified three weeks after the auditor deadline. | <p>Pages 4 – 6</p> |
| <p>Audit adjustments</p> | <p>Adjustments were necessary to all three of the Council's grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ Adjustments made to returns were small in value across all claims. ■ We have raised three recommendations relating to the issues arising that required adjustments to the pooling of housing capital receipts teachers' pensions return. We would like to draw specific attention to the recommendations relating the teachers' pension return as there was a significant amount of work required by management and us before the claim could be certified. | <p>Pages 4 – 6</p> |

Fees

Our certification work is made up of two elements. The housing benefit subsidy claim fee is set by the PSAA while our fee for the other two 'other assurance' claims is agreed with management.

- The indicative fee for our work on the Council's 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £38,700. The actual fee for this work was £33,300 although this adjustment has to be formally approved by the PSAA. The scale fee set by the PSAA in 2013/14 was £33,216.
- Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were as follows (excluding VAT):
 - Pooling of housing capital receipts - £3,000 (2014/15: no comparative as audited as part of PSAA contract); and
 - Teachers' pensions return - £3,000 (2014/15 : £3,000).

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Summary of reporting outcomes

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

- None were unqualified with no amendment;
- Two were unqualified but required some amendment to the final figures; and
- One required a qualification to our audit certificate.

Detailed comments are provided on pages 5 and 6.

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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 on pages 4-5 | Qualified | Significant adjustment | Minor adjustment | Unqualified |
|--|-----------------------|-----------|------------------------|------------------|-------------|
| Public Sector Audit Appointments arrangements | | | | | |
| ■ Housing Benefit Subsidy | 1 | | | x1 | |
| Other assurance engagements | | | | | |
| ■ Pooling of Housing Capital Receipts return | 2 | | | x3 | |
| ■ Teachers' Pensions return | 3 | | | | |
| | | 1 | 1 | 2 | 2 |

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on page 3.

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| Ref | Summary observations | Amendment |
|-----|--|-----------|
| 1 | <p>Housing Benefit Subsidy</p> <p>We issued a qualification on the claim as a result of errors found in testing of non-HRA rent rebates (one case with incorrect working tax credit; one case with incorrect non-dependent deduction; one case with incorrect rent).</p> <p>These occurred as a result of manual input errors. Given the nature of the population and the variation in the errors found, we chose to qualify the claim rather than make claim adjustments.</p> <p>Although we qualified the claim, the impact of this was relatively small based on the claim value of £207.8 million. An extrapolation of the errors was included in our qualification letter, the value of which would have been an overstatement of grant expenditure of £3,777.</p> <p>While the Department for Work and Pensions (DWP) has finalised the position in respect of the 2014-15 return, similar human errors could potentially result in DWP reclaiming grant income in the future.</p> <p>In total, we included four errors in our qualification letter, two of which had no impact on grant entitlement. This represented a slight improvement on 2013-14, when five errors were included in our letter.</p> <p>As in previous years, the errors related to human input errors. These were similar to those found in 2013-14.</p> <p>We also adjusted the claim for one minor error in the treatment of modified scheme cases. This increased the sum owed by the Authority to DWP by £19.</p> | -£19 |
| 2 | <p>Pooling of Housing Capital Receipts</p> <p>Minor errors were made to the return in quarters 1 and 3. The Council transposed the addresses of two properties sold, which impacted on attributable debt calculations. The Council also incorrectly excluded stamp duty from the cost of buying back a dwelling. New build expenditure included in the return double counted £288,000 of expenditure.</p> <p>The errors found were simple, and could have been avoided by stronger final checking and review processes.</p> | -£5,376 |

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on page 3.

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| Ref | Summary observations | Amendment |
|-----|---|-----------|
| 3 | <p>Teachers' Pensions</p> <p>We found issues in relation to the treatment of refunds. One of three refunds tested was not in line with the reporting guidance (it did not relate to prior year over contributions); it was an adjustment to contributions rather than a refund. The Council's payroll team have not separately identified refunds and adjustments. In addition, letters are not sent out to teachers where errors are made and they are eligible for a refund.</p> <p>This led to amendments across most cells on the return.</p> <p>The Council spent significant officer time in both finance and payroll in resolving the issue; the issues found resulted in the claim being submitted three weeks after the auditor deadline.</p> <p>The Council was in contact with Teachers' Pensions (TP) throughout the process to inform them of progress and to agree treatment of some items. TP are therefore aware of weaknesses in arrangements for production of the return, and discussed possible intervention in the event of qualification.</p> <p>The Council has an action plan in place to ensure full compliance with the reporting guidance for 2015-16, and has held preliminary meetings with payroll to ensure that systems are set up to generate the return in future.</p> | +2,668 |

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 fees we charged for carrying out all our work on grants/returns in 2014/15 was £39,300.

Breakdown of fees for grants and returns work

| Breakdown of PSAA claims | | |
|-------------------------------|---------------|---------------|
| | 2014/15 (£) | 2013/14 (£) |
| Housing Benefit Subsidy claim | 33,300 | 33,216 |
| Total fee | 33,300 | 33,216 |

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 £38,700. Our actual fee was £33,000 which is lower than the 2013/14 fee of £33,216. Note that this reduction is still subject to approval by the PSAA.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fee for this work is £3,000 per claim and is in line with the fee charged in 2013/14.

| Breakdown of other assurance claims | | |
|-------------------------------------|--------------|--------------|
| | 2014/15 (£) | 2013/14 (£) |
| Pooling of Housing Capital Receipts | 3,000 | n/a |
| Teachers' Pensions | 3,000 | 3,000 |
| Total fee | 6,000 | 3,000 |

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

| Issue | Implication | Recommendation | Priority | Comment | Responsible officer and target date |
|--|--|--|----------|---------|-------------------------------------|
| Teachers' Pensions return | | | | | |
| Separation of refunds and adjustments The Council's payroll team did not separate refunds and adjustments to contributions, resulting in errors in the refunds figure and the claim more widely. | The return provided to us was not compliant with the reporting guidance. The Council needed to carry out significant additional work to correct errors and netting off in the return. | 1 Ensure that systems are set up to enable payroll to correctly record refunds, and that guidance is issued urgently clarifying the difference between refunds and adjustments and how these are to be treated. | 1 | | |
| Informing teachers of refund amounts The Council does not currently issue any correspondence to teachers when refund circumstances arise. | The Council is not providing a complete service to schools using the in-house payroll team. The Council does not have primary evidence to support refund amounts. | 2 Ensure that a supporting letter is sent to inform teachers when there is a valid refund of over contributions. | 2 | | |
| Pooling of Housing Capital Receipts Return | | | | | |
| Final check of figures The grant return provided by the Council contained simple errors that could have been avoided, such as transposition of property addresses. | The return provided to us contained avoidable errors, which took additional management and audit time to resolve. | 3 Ensure that a final check of the claim is carried out to ensure that entries match between supporting legal records, spreadsheets and the claim. | 3 | | |



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Elector queries – Audit Committee update

London Borough of Islington

January 2016

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Elector rights - background

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- The Local Audit and Accountability Act 2014 (the Act) governs the work of auditors appointed to councils and other local public bodies. The Act, and Accounts and Audit Regulations 2015 also cover the duties, responsibilities and rights of councils, other organisations and the public concerning the accounts being audited.
- A local resident, or an interested person, has certain legal rights in respect of the accounts of local councils. As an interested person they can inspect a council's accounts and related documents. A local government elector can also:
 - ask questions about the accounts; and
 - object to them.
- The elector can only ask questions about the accounts at certain times. The Council is required to advertise when the accounts are available for inspection and also give the period for the exercise of public rights during which electors may ask the auditor questions, which here means formally asking questions under the Act.
- Electors can formally ask the external auditor questions about the accounts, under the Act, during the period for the exercise of public rights. They can ask someone to represent you when asking the external auditor questions. Electors cannot formally ask questions, under the Act, after the end of the period for the exercise of public rights. They can ask the council other questions about their accounts for any year, at any time. But these are not questions under the Act.
- The elector can ask the external auditor questions about an item in the accounts for the financial year being audited. However, the right to ask the external auditor questions is limited. The external auditor can only answer 'what' questions, not 'why' questions. The external auditor cannot answer questions about the council's policies, finances, procedures or anything else unless it is directly relevant to an item in the accounts.
- Once the elector has inspected the accounts and asked their questions they can object to the accounts on the basis that an item in them is their view unlawful or there are matters of wider concern arising from the Council's finances that they wish the auditors to issue a report which is in the public interest. The elector must tell the external auditor which specific item in the accounts they object to and why they think the item is unlawful, or why they think that a public interest report should be made about it. The elector must provide the external auditor with the evidence they have to support your objection. Disagreeing with income or spending does not make it unlawful.
- An unlawful item of account is one, for example, that records spending or income that the Council:
 - spent or received without powers to do so;
 - took from, or added to, the wrong fund or account; or
 - spent on something that they had the power to spend on, but the decision to spend the money was wholly unreasonable or irrational. 'Unreasonable' has a special meaning in law in this context. A council acts 'unreasonably' when its actions are so wholly unreasonable that no reasonable person could have made that decision. This is sometimes called acting 'irrationally'.
- The objection must be made in writing but other than that there is no required format.

What we do once we receive an objection from an elector

- Before we can formally accept an objection, we confirm:
 - the objector is a local elector of the Islington; and
 - the objection relates to an item in the year of account for which the audit is still open. For Islington, the 2013/14 and 2014/15 accounts are still open due to current elector queries (see page 4). Previous year accounts have been closed and electors can not make objections relating to items of account before 2013/14. The auditor cannot issue a certificate to close the accounts of a particular year until all elector queries have been appropriately responded to.
- An auditor or the court cannot challenge a council's decision if it is lawful. Having confirmed the objection is eligible (bullets above) the auditor has to consider whether in their discretion they will accept the objection for consideration. The auditor has a broad discretion as to whether or not to accept an objection for consideration. The grounds, amongst others, on which they may decide not to pursue the objection include:
 - the cost of dealing with it would be disproportionate to the underlying sum (item of account) to which it relates;
 - that it is frivolous or vexatious; and/or
 - it is a repeat of an objection made in a prior year of account.
- If we decide not to go ahead with the objection, we will provide the elector with brief reasons for the decision.
- If the objection is accepted for consideration we will decide appropriate next steps:
 - whether a High Court declaration should be sought; or
 - a public interest report be issued; or
 - If the matter does not warrant either of the above outcomes although it may still be a matter we wish to raise with the Council it may still be a matter that the auditor may wish to raise with the council (in a non-statutory objection recommendation).

Right to appeal

- An objector can appeal against the external auditor's decision but they may have to pay costs. We will always provide a reason for why we have not accepted an electors' objection.
 - If the elector feels reasons have not been given and the objection is that an item in the accounts is unlawful (as opposed to asking for a public interest report), they can you can ask the external auditor for the reasons in writing; or
 - If they have asked the auditor to issue a report in the public interest and they decide not to do so, they cannot appeal that decision; or
 - If they have asked the external auditor to apply to the court for a declaration that the item of account is unlawful and they disagree with the auditor's decision not to consider your objection or not to seek a declaration, they can appeal but will have to take the matter to court themselves. You must file your appeal in the Administrative Court section of the High Court. If the appeal is not upheld, the elector may have to pay all their costs associated with the appeal, and may also be ordered to pay the external auditor's and council's legal costs.

Islington queries

- Compared to other London Boroughs, Islington does receive a significant number of elector queries that end up requiring significant work. For 2011/12 and 2012/13 we received six elector queries that resulted in further work.
- Two of these elector queries resulted in formal objections that we accepted. Details of the request and our decision are provided in **Appendix one** overleaf.
- For the remaining four elector queries we decided following discussions with the elector, the Council and a review of the evidence provided to us not to formally accept an objection. For each of these decisions we formally responded to the elector setting out our reasoning.
- The 2013/14 and 2014/15 accounts are open as an elector has informed us of their intention to make objections to items of account from those years. We have provided the elector with a timescale of the end of January 2016 for providing a formal objection otherwise we will begin the process of closing these years. We also received a further query relating to leasehold charges in 2014/15 that we have not accepted as an objection and have responded to the elector to this effect. At this time we have not agreed a fee to cover the cost of work relating to this elector. The elector still has the opportunity to request objections relating to 2013/14 and 2014/15 however these would only be accepted should they provide us with new information that could change our understanding of the issue raised.

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- There is no cost to the elector for exercising their rights. Resulting costs incurred by the Council form part of its running costs. Therefore, indirectly, local residents pay for the cost of electors exercising their rights through their council tax. As auditors, we ensure the Council are provided with details of the time spent responding to elector queries so there is appropriate visibility on the fee. The fee is approved by the Public Sector Audit Appointments Limited (PSAA) and is based on scale rates for each type of grade of staff used by the auditors. The cost is also discounted by 40% in accordance with the framework contract the PSAA has with audit suppliers (i.e. Islington is only being billed 60% of the cost).
- Since 2011/12, Islington has paid £61,597 in fees relating to elector queries. This covers the five queries relating to the 2011/12 and 2012/13 financial statements referred to above. The fees charged only relate to elector questions where we have undertaken detailed work. We periodically receive correspondence from electors however when these do not turn into detailed work the Council does not incur costs. Costs have been incurred on one further query relating to 2014/15 however a fee has not been agreed with the Council nor approved by the PSAA.

Elector queries – Audit Committee update

Appendix one: summary of queries

| Year | Description of issue | Action | Cost |
|---------|---|--|---------|
| 2011/12 | <p>Street Properties PFI scheme</p> <p>The elector originally requested that we consider issuing a report in the public interest in relation to the Council's management of its Street Properties PFI scheme.</p> <p>The first correspondence from the elector was received in December 2012. The matter was finally resolved in June 2014 but required significant correspondence with the elector over this period before a decision on whether to accept an objection or not could be made.</p> | <p>This objection was not accepted.</p> <p>After receiving written evidence both provided by the elector and the Council, we were minded not to issue a report in the public interest because we did not consider that any significant losses have been incurred and, where any failings existed, the Council has already acted to remedy any deficiencies.</p> | £14,855 |
| 2012/13 | <p>Drayton Park parking</p> <p>The elector requested that we apply to the court under section 17 of the Audit Commission Act 1998 for a declaration that income from penalty charge notices (PCNs) issued at Drayton Park are an unlawful item of account on the grounds that the PCNs were issued during a period when the road markings and signed traffic restrictions were changed without the necessary authorisation of a new traffic order.</p> <p>The elector also asked for a public interest report on this matter and asserted that 'given that the Council's intention is permanently to appropriate this money which is the property of others for its own purposes it is contrary to the Theft Act 1968'.</p> <p>This was a particularly complex issue that required a review of a significant amount of documentation provided by the elector and the Council. The complexity of the issue also required us to obtain our own legal advice.</p> | <p>This objection was accepted.</p> <p>Our decision was not to make an application to the court for declaration that an item of account is unlawful because having obtained our own legal advice we considered it unlikely that there is an item contrary to law. Even if we were wrong in this respect, given the value of PCNs issued is £591,600 it was our view that any benefits of an application to the courts would be disproportionate to the costs. The enforcement of the restriction has ceased and the restriction itself removed such that, particularly given the voluntary offer of a refund, this is not an ongoing matter giving rise to any real public interest.</p> <p>Our decision was not issue a public interest. The reasons for this view were essentially the same as those put forward for not seeking a declaration.</p> <p>As part of our work we did acknowledge that the Council could have better advertised the opportunity for refunds on its website.</p> | £32,144 |
| 2012/13 | <p>Drayton Park parking</p> <p>A separate elector raised the same issue as above relating to PCNs issued at Drayton Park as an unlawful item and requesting we issue a public interest report.</p> | <p>This objection was withdrawn by the elector following correspondence with us and information provided by the Council.</p> | £3,636 |

Elector queries – Audit Committee update

Appendix one: summary of queries

| Year | Description of issue | Action | Cost |
|---------|--|---|-----------------------------|
| 2012/13 | Business Rates liability of the National Heritage Library The elector requested we consider two issues relating to Business rates. The elector did not formally request either an item be considered unlawful or request a public interest report however we considered their request against the powers and duties of the auditor as set out in statute and the Code of Audit Practice. | This objection was not accepted. After receiving written evidence both provided by the elector and the Council, we determined that one item was outside the scope of our powers and for the second we were not minded to make an application to the court for declaration that an item of account is unlawful nor issue a report in the public interest. | £4,272 |
| 2012/13 | Installation and operation of the heating system in Braithwaite House The elector through their representative requested a public interest report in respect of the installation of an alleged 'non-working' boiler system in Braithwaite House. | This objection was not accepted No report in the public interest was issued following a review of the matter. Related to this matter the Council deemed the elector's representative to be vexatious. | £6,690 |
| 2014/15 | Leaseholder service charge The elector requested we review the issue of right to buy service charge calculations. The original objection did not state whether the elector was requesting either an item be considered unlawful or request a public interest report. | This objection was not accepted. After receiving written evidence both provided by the elector and the Council, we determined that the elector has provided insufficient information to indicate what item of account is unlawful or what matter should be reported in the public interest to allow us formally accept an objection. While the 2014/15 year remains open, the elector has the right to request the objection be accepted but this would only be accepted should they provide further information that could change our understanding of the issue raised. | Fee not agreed with Council |



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