



*cutting through complexity*

# KPMG Annual Report on grants and returns work 2014/15

London Borough of Islington

January 2016

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

**Phil Johnstone**

*Director*

Tel: 0207 311 2091

philip.johnstone@kpmg.co.uk

**Paul Cuttle**

*Senior Manager*

Tel: 0207 311 2302

paul.cuttle@kpmg.co.uk

**Jonathan Ware**

*Assistant Manager*

Tel: 0207 311 2283

jonathan.ware@kpmg.co.uk

	<b>Page</b>
■ Headlines	2
■ Summary of certification work outcomes	3-5
■ Fees	6
■ Recommendations	7

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](http://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](mailto: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](mailto: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><b>Introduction and background</b></p>	<p><b>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:</b></p> <ul style="list-style-type: none"> <li>■ 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.</li> <li>■ Under separate assurance engagements we certified two claims/returns as listed below: <ul style="list-style-type: none"> <li>– Pooling of housing capital receipts: value of receipts £41.5 million; and</li> <li>– Teachers’ pensions return: value of contributions £13.8 million.</li> </ul> </li> </ul>	<p>-</p>
<p><b>Certification results</b></p>	<p><b>Our work on the Council’s Housing Benefit Subsidy claim was subject to a qualification letter.</b></p> <ul style="list-style-type: none"> <li>■ 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.</li> <li>■ 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.</li> <li>■ This represented an improvement on 2013-14, when five errors were reported in our letter.</li> </ul> <p><b>Our work on the other grant assurance engagements resulted in the following reports:</b></p> <ul style="list-style-type: none"> <li>■ The Pooling of Housing Capital Receipts return was certified with minor amendments and no qualification; and</li> <li>■ 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.</li> </ul>	<p><b>Pages 4 – 6</b></p>
<p><b>Audit adjustments</b></p>	<p><b>Adjustments were necessary to all three 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>■ Adjustments made to returns were small in value across all claims.</li> <li>■ 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.</li> </ul>	<p><b>Pages 4 – 6</b></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).

**Page 7**

## 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.

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
<b>Public Sector Audit Appointments arrangements</b>					
■ Housing Benefit Subsidy	1	x1			
<b>Other assurance engagements</b>					
■ 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.

Ref	Summary observations	Amendment
1	<p><b>Housing Benefit Subsidy</b></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><b>Pooling of Housing Capital Receipts</b></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

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

Ref	Summary observations	Amendment
3	<p><b>Teachers' Pensions</b></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>	<p><b>+2,668</b></p>

## Fees

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
<b>Total fee</b>	<b>33,300</b>	<b>33,216</b>

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

### 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.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations					
<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.		<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.		<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.	
Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<b>Teachers' Pensions return</b>					
<b>Separation of refunds and adjustments</b>  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.	<b>1</b> 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.	<span style="background-color: #c00000; color: white; border-radius: 50%; padding: 2px 6px;">1</span>		
<b>Informing teachers of refund amounts</b>  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.	<b>2</b> Ensure that a supporting letter is sent to inform teachers when there is a valid refund of over contributions.	<span style="background-color: #ffc000; color: white; border-radius: 50%; padding: 2px 6px;">2</span>		
<b>Pooling of Housing Capital Receipts Return</b>					
<b>Final check of figures</b>  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.	<b>3</b> Ensure that a final check of the claim is carried out to ensure that entries match between supporting legal records, spreadsheets and the claim.	<span style="background-color: #90c000; color: white; border-radius: 50%; padding: 2px 6px;">3</span>		



*cutting through complexity*

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.