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Certification of grants and returns 2011/12

Nottingham City Council

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in connection with this
report are:**

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Introduction and background	<p>This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns.</p> <ul style="list-style-type: none"> for 2011/12 we certified 6 returns with a total value of £325m. 	-
Certification results	<p>We issued unqualified certificates for three returns but qualifications were necessary in three cases.</p> <ul style="list-style-type: none"> housing and council tax benefit scheme – we identified a high level of Council Tax benefit overpayment classification errors; national non-domestic rates return – we found two instances where there was insufficient evidence to support the award of mandatory charitable relief; and teachers' pensions return - insufficient evidence was available to support and reconcile the teacher contributory salary values and certain contributions paid to underlying records. 	Pages 3 – 4
Audit adjustments	<p>Adjustments were necessary to two of the Council's returns as a result of the certification work this year.</p> <ul style="list-style-type: none"> teachers' pensions return – the value of total contributions paid increased by £982,702; and housing revenue account subsidy - the return was adjusted by £38,364. 	Pages 3 – 4
The Council's arrangements	<p>The Council has adequate arrangements for preparing most returns and to support certification work but some improvement is required .</p> <ul style="list-style-type: none"> overall grants co-ordination arrangements would benefit from: <ul style="list-style-type: none"> improved timeliness of grants submission (three out of the six returns were submitted late this year); and overall reviews of returns and supporting working papers for completeness prior to submission for audit. arrangements for compiling the teachers' pensions agency return this year were weak and need to be improved. 	Page 5
Fees	<p>Our overall fee for the certification of returns (£46,494) has been contained within the original estimate of £64,200.</p> <ul style="list-style-type: none"> the fee for this year is below the overall estimate. due to changing requirements, only 6 returns were certified this year compared with 8 in 2010/11 	Page 6

Overall, we certified 6 grants and returns:

- 2 were unqualified with no amendment;
- 1 was unqualified but required some amendment to the final figures; and
- 2 required a qualification to our audit certificate; and
- 1 required a qualification to our audit certificate and some amendment to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from the 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. All work was delivered by the Audit Commission's Audit Practice

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 and council tax benefit scheme	1	●			
Pooling of housing capital receipts					●
School centred initial teacher training					●
Housing revenue account subsidy				●	●
National non-domestic rates return	2	●			
Teachers' pensions return	3	●	●		
		3	1	1	3

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

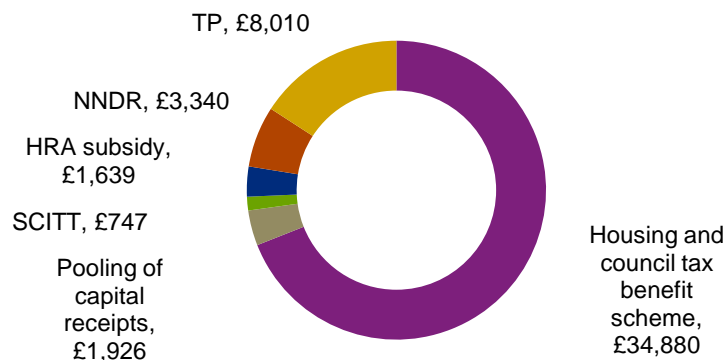
Ref	Summary observations	Amendment
1	<p>Housing and council tax benefit scheme – qualification issue</p> <ul style="list-style-type: none"> We identified a high level of Council Tax benefit overpayment classification errors. Our certification work found classification errors for 33% of cases reviewed (63% in 2010/11). The potential funding claw back related to these errors has been estimated at £101,500 and is lower than 2010/11 (£220,000). This issue was previously reported in the 2010/11 grant certification report. A recommendation was made that steps be taken to reduce the level of errors. The Authority has responded to this although, as action could only be taken in early 2012, this had a limited impact in relation to the 2011/12 grant claim. The potential funding claw back for all types of error is estimated at £799,000 which is higher than 2010/11 (£729,000) and represents just under 0.5% of the total return value (£173,604,689). Errors arise due to the scale and complexity of individual claims covered by the return. 	None
2	<p>National non-domestic rates return – qualification issue</p> <ul style="list-style-type: none"> We found two minor matters where there was insufficient evidence to support the award of mandatory charitable relief valued at £31,384. Cyclical checks are made by the authority on a random sample of ratepayers in receipt of charitable relief to check that the application of the relief is still valid. As the checks are random, neither of these two cases had been covered by this process. The authorisation controls for processing write offs of collection losses were not adhered to. Business rates procedures require formal write off of all collection losses greater than £1. Write off forms are used to record approvals for individual amounts. Losses of £1 or less are subject to automatic write off by the Council's NNDR system (Northgate) at the year-end. Our certification work found that write off forms are appropriately signed to confirm that they are approved. However, a number of write off forms we reviewed were either undated or dated such that approval was not timely. In this situation, there is a risk of inappropriate write offs being applied and remaining undetected. There is a potential risk that this could in the future understate the amount owed to the Authority. 	None

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

Ref	Summary observations	Amendment
3	<p>Teachers' pension return - qualification and significant amendment issue</p> <ul style="list-style-type: none"> ■ Insufficient evidence was available to support and reconcile the teacher contributory salary values and certain contributions paid to underlying records: <ul style="list-style-type: none"> ■ teachers paid through authority's payroll – the Authority was unable to reconcile a £2,624.84 difference between the return value for contributory salary (£50,934,833.60) and supporting payroll records ■ teachers paid through other payroll providers – the GM school element (£4,835,035.47) of the return value for contributory salary (£12,135,776.91) was compiled using estimated rather than actual amounts ■ employer contributions paid – the Authority was unable to reconcile a £10,244.44 difference between the return value (£7,169,671.67) and supporting payroll records ■ Authority procedures for compiling the return did not operate effectively this year. Reasons include: <ul style="list-style-type: none"> ■ late submission of the return on 2 August 2012 (audit submission deadline 30 June 2012) ■ lack of supporting papers (on submission for audit) ■ significant inconsistencies in the return found during our initial audit review in September 2012 (including £982,702.96 linked to total contributions paid) ■ the need for a revised return (submitted 21 November 2012) as we were unable to audit the original August 2012 version due to the problems outlined above ■ a further amended return required following audit of revised return in November 2012 ■ a change of preparer from 2010/11 (responsibility transferred from corporate finance team to payroll team) ■ not resolving significant differences in contributions paid between Teachers Pensions and authority records in response to the Teachers Pensions end of year certificate process. ■ The Authority undertook work in October 2012 to reconcile and agree the 2011/12 contributions with Teachers Pensions. This found that contribution records held by Teachers Pensions were incomplete for a number of academy schools leading to the agency amending its records. As a result the total contributions paid as stated in the return increased significantly (by £982,702) to £12,946,959. ■ Looking ahead, effective operation of this process in future years would avoid the inefficiencies experienced by both the authority and auditors. 	+£982,702

The overall fee for the certification of grants and returns has been contained within the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by return		
	2011/12 (£)	2010/11 (£)
Housing and council tax benefit scheme	34,880	25,548
Pooling of housing capital receipts	1,926	2,943
School centred initial teacher training	747	1,387
Housing revenue account subsidy	1,639	2,763
National non-domestic rates return	3,340	4,326
Teachers' pension return	8,010	1,427
Housing finance base data return	-	7,985
Other (Surestart, disabled facilities)	-	5,370
Total fee	50,542	51,749

Our initial estimated fees for certifying 2011/12 grants and returns was £64,200. The actual fee charged was lower than that estimate as fewer returns required certification than originally planned. All fees were charged by the Audit Commission other than for £6,745 of the £8,010 teachers' pension return fee. This related to certification work by KPMG in November 2012 and reflects the extent of additional work required to address the issues identified on page 5 of this report.

Extra work was required for the housing and council tax benefit scheme this year leading to an increased fee compared with last year. Overall, the level of work varies as it is dependent on the complexity of cases reviewed. Significant extra work was also needed this year looking at local authority overpayments and to review new disclosures within the return.

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>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>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Preparation of returns and grants					
<p>Overall</p> <p>Three of the six returns certified this year were submitted after the relevant authority deadline.</p> <p>Returns and claims are not reviewed for completeness and adequacy of supporting papers before submission.</p> <p>Authority procedures for compiling the teachers' pension return this year were weak.</p>	<p>Increased risk of error in returns and claims.</p>	<p>1</p> <p>Improve the co-ordination of grants and returns preparation through identifying a central grants co-ordinator to help ensure the completeness of the grants and returns identified as requiring certification.</p> <p>Provide guidance to officers preparing grants and returns to improve the standard of working papers and supporting evidence.</p>	<p>1</p>	<p>A grant co-ordinator has already been identified within the Strategic Finance Team. Relevant grants and their responsible officers have also been identified so that guidance can be provided and to ensure effective monitoring of the standard of working papers and evidence.</p>	<p>Geoff Walker</p> <p>31 January 2013</p>

Three recommendations were made in the 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 November 2012	Management comments
Housing subsidy base data return			
<p>1 Review the Council's housing database to confirm it meets both existing and future needs.</p> <p>If appropriate, the Council should seek to eliminate the level of property classification errors within the database.</p>		Partially implemented.	<p>Review of housing database commissioned by the Deputy Chief Executive and Corporate Director of Resources in November 2011 in response to a DCLG request in October 2011.</p> <p>Nottingham City Homes completed the review , corrected the discrepancies identified and are continuing to ensure that the Keystone and Northgate (SX3) systems contain consistent information.</p> <p>Nevertheless, since the introduction of the new self financing arrangements for local government housing, there is no longer any requirement for the authority to provide this information to central government.</p>



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