



Annual Report on grants and returns 2015/16

Nottingham City Council

February 2017



Contents

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

Tony Crawley
Director

KPMG LLP (UK)

Tel: +44 (0) 116 256 6067
tony.crawley@kpmg.co.uk

Thomas Tandy
Manager

KPMG LLP (UK)

Tel: +44 (0) 115 945 4480
thomas.tandy@kpmg.co.uk

Alastair Cowen
Assistant Manager

KPMG LLP (UK)

Tel: +44 (0) 121 609 5810
alastair.cowen@kpmg.co.uk

	Page
Headlines	3
Summary of certification work outcomes	4
Fees	7
Recommendations	8

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document 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 Tony Crawley, 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 (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, 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.

Headlines

Introduction and background

This report summarises the results of work we have carried out on the Authority's 2015/16 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 PSAA work completed in 2015/16 relates solely to the Authority's 2015/16 Housing Benefit Subsidy claim which had a value of £148.236 million.

Under separate assurance engagements we have also certified four claims/returns as listed below.

- DCLG Pooling of Housing Capital Receipts return – y/e 31 March 2016 – claim value of £13.757 million
- DfT Local Transport Plan Major Projects S31 AUD return – y/e 31 March 2016 – claim value of £3.141 million
- Teachers' Pensions End of Year Certificate (EOYC) return – y/e 31 March 2016 – claim value of £33.497 million
- SFA Sub-contracting return – period ending 31 July 2016

Certification and assurance results (Pages 5-6)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, a qualification letter was required, due to a number of recurring errors, mainly the inclusion of incorrect earnings and tax credits in benefit entitlement calculations. We noted that for four of the 13 prior year errors followed up as part of this year's work, the error rate was over 30%, an increase from the previous year. Overall 606 cases were tested, of which 116 contained errors. We have subsequently raised a recommendation within this report to support the Authority in reducing this going forward.

Our work on the other grant assurance engagements resulted in issuing a Reporting Accountant's independent reasonable assurance report in connection with the below returns for the year ended 31 March 2016:

- DCLG Pooling of Housing Capital Receipts return;
- Local Transport Plan Major Projects S31 AUD return; and
- Teachers' Pensions EOYCa return.

We also issued a report in regards to the arrangements the Authority has in place to manage and control its subcontractors as described within the SFA guidance.

Adjustments were necessary to three of the Authority's grants and returns as a result of our certification work this year.

- Housing Benefit Subsidy claim – minor amendment of £832;
- Teachers' Pension EOYC – minor amendments were made to the EOYC presented for certification (see page 6); and
- Local Transport Return – inter project reclassification of c£243k expenditure was required, however this did not impact on the amount of grant that the Authority claimed.

Recommendations (Pages 8)

We have made one recommendations to the Authority from our work this year and agreed an action plan with officers.

Fees (Page 7)

Our proposed fee for certifying the Authority's 2015/16 Housing Benefit Subsidy grant is £18,458 which is still subject to determination by PSAA. This is more than the indicative fee set by PSAA and reflects the additional work we have undertaken in year. Our fees for the other 'assurance' engagements were subject to agreement directly with the Authority and are set out on page 7.

Summary of reporting outcomes









Overall, we carried out work on 5 grants and returns:

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

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Authority's 2015/16 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 Authority to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1				
Other assurance engagements					
— Pooling of capital receipts	2				
— Transport Grant	3				
— Teachers Pension	4				
— SFA Sub-contracting	5				
		1	-	3	4

Summary of certification work outcomes

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 Benefits</p> <p>We issued a qualification letter and agreed one minor amendment to the claim of £832.</p> <p>The Housing Benefits audit approach is mandated by the Department for Work and Pensions. Testing involves a 'discovery sample' of 20 cases for each benefit type (total 40 cases), with further testing of 40 cases required for each type of error found, either in the current year's discovery testing or errors identified from the previous year.</p> <p>For our 2015/16 audit, there were 13 types of errors from the previous year, each required further testing of 40 cases. The testing undertaken did not identify any further errors for two the 13 error types. However, further errors were identified for the remaining 11, and for four of them the error rate was over 30%. These four error types related to inaccuracies within benefit calculations for earned income, tax credits, child care costs, and statutory maternity pay. While individual errors were typically minor, some as low as £1 (resulting in underpayments and overpayments), the frequency of errors found has increased from the previous year. Our initial discovery testing also identified two new error types, which both resulted in further testing. Overall 606 cases were tested, of which 116 cases contained errors.</p> <p>While the error rate for the Authority is not inconsistent with other large unitary Authority's where we undertake housing benefits work, it is important that the Authority continues to take action to address the causes. This requires continuous commitment to training and quality to minimise the number of recurring errors. We acknowledge that the Quality Assurance team are proactive in correcting the errors that they discover, and that housing benefits regulations are complex by their nature, which when combined with a varied claimant mix within Nottingham, poses an inherent risk to the Authority in accurately processing housing benefit claims.</p>	- £832
2	<p>Pooling of capital receipts</p> <ul style="list-style-type: none"> — We issued an unqualified audit report. — There were no issues or amendments arising from our review. 	£0
3	<p>Local transport grant</p> <ul style="list-style-type: none"> — We issued an unqualified audit report. — As part of our review we identified the that an inter project correction had not been accurately reflected within the claim, this resulted an a reclassification of c.£243k between two components of the transport project. There was no impact on the bottom line eligible grant funding. 	£0

Summary of certification work outcomes (cont.)

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

Ref	Summary observations	Amendment
4	Teachers' pensions <ul style="list-style-type: none"> — We issued an unqualified audit report. — From our initial review we identified two minor issues for which the Authority amended the End Of Year Certificate (EOYC). These included £152 of Career Average Flexibilities misclassified on the EOYC. Along with, £2,358.12 underpayment of contributions resulting from an element of a teachers salary not being accounted for. — The EOYC was returned to the Authority with minor discrepancies identified by Teachers' Pensions, we also reviewed the revised EOYC before it was re-submitted. 	+£2,510
5	SFA Sub-contracting <ul style="list-style-type: none"> — In the year ending 31 July 2016, the Authority had subcontracting arrangements which were funded through an agreements with the Skills Funding Agency (the "SFA"). The terms of the funding agreement require the Authority to obtain a report on an annual basis from an independent accountant on the arrangements that the Authority has in place to manage and control its subcontractors as described in the SFA guidance. — The Authority is required to complete and submit a certificate to the SFA confirming that the report identified no recommendations, or that any recommendations identified have been actioned in the form of an implementation plan with dates agreed. — We evaluated the design and operational effectiveness of the policies and procedures in place intended to achieve compliance with the subcontracting requirements set out within the Funding Agreements and the funding rules 2015/2016. — Our review highlighted four recommendations all of which were agreed by the Authority and we agreed an action plan to address them. The recommendations included: <ul style="list-style-type: none"> — the completeness of the register of training operations; — having in place a contingency plan for delivery of education and training should a subcontractor fail to deliver; — updating the subcontracting clauses within the model contract; and — publishing supply chain fees and charges in the format required by the SFA. 	N/A

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 Authority.

The overall fees we propose to charge for carrying out all our work on grants/returns in 2015/16 was £31,658.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Authority's Housing Benefit Subsidy claim in 2015/16 of £12,372 fee. Our proposed fee of £18,458 is still subject to determination by PSAA. This is higher than the indicative fee, and compares to the 2014/15 fee for this claim of £14,620.

The main reasons for the fee exceeding the original estimate was the work required to address the additional errors identified as part our testing.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Authority. Our fees for 2015/16 were broadly in line with those in 2014/15.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	£18,458*	£14,620
Pooling of capital receipts	£4,000	£3,000
Local transport grant	£3,000	£3,000
Teachers pension	£3,200*	£3,500
SFA subcontracting	£3,000	-
Decent Homes Backlog Funding**	-	£3,400
Total fee	£31,658	£27,520

* Fees subject to final approval

**This funding ceased in 2014/15 and so no certification was required for 2015/16.

Recommendations

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

Priority rating for recommendations

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.	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.	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.
---	--	---	---	---	---

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Housing Benefits					
Housing benefits errors For our 2015/16 audit, there were 13 types of errors from the previous year, each required further testing of 40 cases. Our testing did not identify any further errors for two the 13 error types. However, further errors were identified for the remaining 11, four of which the error rate was over 30%. These four error types related to inaccuracies within benefit calculations for earned income, tax credits, child care costs, and statutory maternity pay. While individual errors were typically minor, some as low as £1, the frequency of errors found has increased from the previous year.	Claimants receive incorrect benefits Financial penalties for the Authority from the DWP as a result of the housing benefits audit.	1	It is important that the Authority takes action to address the causes of the errors found. This will require continuous commitment to training and quality to minimise the number of recurring errors.	2	TBC
				TBC	TBC



kpmg.com/uk



© 2017 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 and logo are registered trademarks or trademarks of KPMG International. | CREATE: CRT070784A