

# AUDIT COMMITTEE

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Tuesday, 21 March 2017 at 7.00 p.m.

MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,  
London E14 2BG.

## SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

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see the main agenda.

**3 .1 KPMG Annual Report on Grants and Returns Work 2015-16**

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# Annual Report on grants and returns 2015/16



**London Borough of Tower Hamlets**

February 2017

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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. 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](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 Andrew Sayers, the engagement lead to the Authority (and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited), who will try to resolve your complaint. 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](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.

### Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £271 million.
- Under separate assurance engagements we certified two claims/returns as listed below.
- Teachers' Pensions Return (total contributions paid were £27.7 million); and
- Pooling of Housing Capital Receipts return (total housing receipts subject to pooling were £32.3 million).

### Certification and assurance results (Pages 3-4)

Our certification work on the *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, the claim was certified subject to a qualification letter.

- Our testing of 100 cases (60 initial cases and 40 additional cases) identified two cases with errors. One error resulted in an underpayment of subsidy and one in an over payment of £58.45.
- The DWP requires auditors to extrapolate any over payment errors. This calculation identified that the extrapolated impact of the error was £2,587. A final determination is awaited from the DWP as to whether the extrapolated error will be applied to reduce the amount of subsidy payable to the Council.
- In the previous year we tested 140 cases (60 initial cases and 80 additional cases) and identified 11 cases with errors. Ten of the errors resulted in an underpayment of subsidy and one in an over payment of £120.42. The extrapolated error value was £5,199.

Our work to provide a reasonable assurance on the *Teachers' Pensions* return followed the instructions issued by the Teachers' Pensions agency and included:

- undertaking an analytical review of the claim form to inform testing and sample sizes;
- sample testing confirming that contributory salaries have been extracted correctly from payroll records, teachers' contributions have been deducted at the appropriate rate, employer's contributions have been calculated correctly and where relevant that 'other' contributions had been dealt with correctly; and
- completing testing in relation to any refunds of contributions made to teachers.

Our work on the Teachers' Pensions return assurance engagement resulted in an unqualified conclusion such that the return had been prepared, in all material respects, in accordance with the regulations underpinning the Teachers' Pensions Scheme.

## Headlines

Our work to provide a reasonable assurance on the *Pooling of Housing Capital Receipts* return included testing of entries specified by the Department for Communities and Local Government (DCLG) as follows:

- total expenditure incurred by the Council in buying a relevant interest in the relevant quarter;
- total receipts received by the Council in the relevant quarter arising from disposal of dwellings under Right to Buy (RTB) or any other disposal to which the Schedule to Regulations applies;
- total receipts received by the Council in the relevant quarter arising from disposals of dwellings made before 01 April 2012 under RTB or equivalent provision;
- number of sales made by the Council in the relevant quarter to which the Schedule applies;
- quarterly attributable debt for the relevant quarter; and
- actual amount of new-build expenditure between 01 April 2015 and 31 March 2016.

Our work on the Pooling of Housing Capital Receipts return assurance engagement resulted in an unqualified conclusion such that, based upon the work performed, in our opinion, the return had been prepared, in all material respects, in accordance with the regulations underpinning the Pooling of Housing Capital Receipts scheme.

No adjustments were necessary to two of the Council's grants and returns as a result of our certification work this year (Housing Benefit Subsidy and Teachers' Pensions Return).

For the Pooling of Housing Capital Receipts return there was an amendment to the 'Quarterly Attributable Debt' of £2,700 for Quarter 3. The impact of the amendment was to increase the 'required amount of new build expenditure' by £9,000 by 31 December 2018 (the original value was £144.2 million). There was no change in the

total housing capital receipts subject to pooling.

### Recommendations

We have not made any recommendations to the Council from our work this year or last year.

### Fees (Page 7)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £20,327, which is in line with the indicative fee set by PSAA.

Our fee for the Teachers' Pensions Return was subject to agreement directly with the Council and was £3,500.

Our fee for the Pooling of Housing Capital Receipts Return was subject to agreement directly with the Council and was £3,250.

# Summary of reporting outcomes





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

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

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council’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 Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
<b>Public Sector Audit Appointments regime</b>					
— Housing Benefit Subsidy	1				
<b>Other assurance engagements</b>					
— Teachers’ Pensions return	2				
— Pooling of Housing Capital Receipts return	3				
		1	0	1	2

# 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><b>Housing Benefit Subsidy</b></p> <ul style="list-style-type: none"> <li>— The Council’s 2015/16 Housing Benefit Subsidy claim has a value of £271 million.</li> <li>— Our initial testing of 60 cases (20 each from Non-HRA; HRA; and Rent Allowances) identified two cases with errors, both relating to Non-HRA Rebates. One error resulted in an underpayment of subsidy and one in an over payment of £58.45.</li> <li>— As a consequence of the errors the DWP requires the auditor to undertake additional testing. Our additional testing of 40 Non-HRA cases did not identify any further errors.</li> <li>— The DWP requires auditors to extrapolate any over payment errors. This calculation identified that the extrapolated impact of the error was £2,587. We reported the position to the DWP in the form of a qualification to the claim. No amendment was made to the claim for the error identified or the extrapolation. A final determination is awaited from the DWP as to whether the extrapolated error will be applied to reduce the amount of subsidy payable to the Council.</li> </ul>	NIL
2	<p><b>Teachers’ Pensions Return</b></p> <ul style="list-style-type: none"> <li>— The Return was certified with an unqualified reporting accountants’ report and no amendments were necessary.</li> </ul>	NIL
3	<p><b>Pooling of Housing Capital Receipts Return</b></p> <ul style="list-style-type: none"> <li>— The Return was certified with an unqualified reporting accountants’ report.</li> <li>— There was a minor amendment to the claim, relating to the ‘Quarterly Attributable Debt’ of £2,700 for Quarter 3. The impact of the amendment was to increase the ‘required amount of new build expenditure’ by £9,000 by 31 December 2018 (the original value was £144.2 million). There was no change in the total housing capital receipts subject to pooling.</li> </ul>	-£2,700



## 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 2015/16 was £27,077.

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### 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 2015/16 of £20,327. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £30,450. The main reason for the fee decrease between years was caused by the PSAA's tendering processes. The re-tendering resulted in scale fees for PSAA claims being reduced by around 25% for Local Authorities.

### Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2015/16 were in line with those in 2014/15. The reason for the small increase for the Pooling of Housing Capital Receipts return was due to additional testing needed for new build expenditure.

### Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	20,327	30,450
Teachers' Pensions return	3,500	3,500
Pooling of Housing Capital Receipts return	3,250	3,000
<b>Total fee</b>	<b>27,077</b>	<b>36,950</b>



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