

AUDIT COMMITTEE

Tuesday, 22 March 2016 at 7.00 p.m.

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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To receive KPMG's Annual Report on grants and returns for 2014/15.

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Non-Executive Report of the: Audit Committee 22 March 2016	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
2014/15 KPMG Annual Report on Grants and Returns Work	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All wards

Summary

This report presents KPMG's Annual Report on grants and returns for 2014/15. The report is

KPMG are appointed by the Public Sector Audit Appointment (PSAA) to audit the Council's large grant claims and returns. They have reviewed the 2014/15 Housing Benefit Subsidy claim, the pooling of housing capital receipts and the teachers pensions return.

Though a couple of minor matters were identified with the claims, no adjustments were made to the amounts of Housing Benefit Subsidy due to the Council or the amount paid regarding the share of right to buy receipts payable to the Government or teacher's pension contributions. Their report is enclosed with the report.

Recommendations:

The Audit Committee is recommended to:

- Note the auditor's Annual report on grants and returns 2014/15.

1. REASONS FOR THE DECISIONS

- 1.1. The Committee is asked to note the findings of the external auditor as part of their review of the Council's significant claims.

2. ALTERNATIVE OPTIONS

- 2.1 This is a report for noting and the external auditor would like the contents brought to the attention of the Audit Committee.

3. DETAILS OF REPORT

- 3.1 This reports details for members the comments made by the auditors relating to the claims and grants identified above findings. Overall, the issues identified by the auditors were minor in nature and did not require change to the subsidy claimed or payments made.

4. Details of Claims and Returns

- 4.1 The Housing Benefit Subsidy Claim – this is the validation of the claim the authority submits to recover Housing Benefit paid to residents from central government. There were issues identified as part of audit testing, however this did not lead to changes in the subsidy receivable from the government. Recent government statistics show that 77% of subsidy claims are qualified.
- 4.2 During the year, 36,000 live claims were processed of which over 7,200 were new claims and over 143,000 in year changes to individual's data was made as personal circumstances changed. Over £264m of benefits were paid in 2014/15.
- 4.3 HRA Rent Rebate – the auditors identified one case where benefit was overpaid by £120.42. This was extrapolated up to the figure of £5,200 quoted in the audit report.
- 4.4 Benefit officers conduct accuracy checks on income data provided by claimants as part of processing claims. However where an individual's income fluctuates from week to week, there is potential for incorrect assessments to be made. Also small transposition errors were made where earnings information on an income data management system was transferred to the benefits system. These non-material errors with HRA rebates and rent allowances did not result in the subsidy claim being amended.
- 4.4 Pooling of Housing Capital Receipts – Where Council dwellings are sold to tenants under the Right to Buy Scheme, a share of the capital receipt has to be paid to the Government. A pooling of Housing Capital Receipts form is completed to show how the receipt is to be shared between the Council and the Government. The audit review confirms that the calculations have been made correctly. Other than a very minor issue where a property was misidentified as a high rise flat rather than a medium rise flat, no other issues were identified in the processing of £29.3m of receipts in 2014/15. The incorrect record has since been updated.

4.5 Teachers pension return – this summarises the pension contributions collected and paid to the nationwide teachers pension fund. This totalled £26.2m for 2014/15. The auditors check that the Council systems contain accurate records. Other than one teacher who did not appear on the Teachers Pension Authority (TPA) employer Portal, the auditors confirmed that the Council’s records were correct. The portal has since been updated.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

5.1 The comments of the Corporate Director of Resources have been incorporated into the report.

6. LEGAL COMMENTS

6.1 The Council’s external auditors are appointed under the Public Sector Audit Appointment arrangements to audit material grants and claims.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 There are no specific one Tower Hamlets considerations from the findings of the audit report.

8. BEST VALUE (BV) IMPLICATIONS

8.1 The monitoring arrangement for the Pension Fund and the work of the officers, advisers and consultants should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 The audit review of grants and returns confirms that the Council has robust systems of control in operation and adequate records.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no any Crime and Disorder Reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- **KPMG Annual Report on Grants and Returns Work 2014/15**

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

Officer contact details for documents:

Kevin Miles (Chief Accountant) x6791

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KPMG Annual Report on grants and returns work 2014/15

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London Borough of Tower Hamlets

February 2016

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<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.</p> <p>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 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 £262.7 million. ■ Under separate assurance engagements we certified two claims/returns as listed below. <ul style="list-style-type: none"> – Pooling of Housing Capital Receipts (£29.3 million) – Teachers’ Pensions Return (£26.2 million). 	<p>-</p>
<p>Certification results</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 7</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"> ■ The claim was subject to a qualification letter. The issues raised related to testing errors identified from work undertaken on the claim as summarised below: <ul style="list-style-type: none"> • HRA Rent Rebates <p>Initial and additional sample testing identified seven cases with errors (out of 60 tested) all relating to the incorrect calculation of claimant income. Six of the errors resulted in an underpayment of benefit or had no value impact. They did not affect subsidy and therefore were not classified as errors for subsidy purposes. The remaining case resulted in an over claim of benefit subsidy. The error was small and after extrapolation (as required by the Department for Work and Pensions) the error was £5,200.</p> • Rent Allowances <p>Initial and additional sample testing identified four cases with errors (out of 60 tested) all relating to the incorrect calculation of claimant income. All four of the errors resulted in an underpayment of benefit or had no value impact. They did not affect subsidy and therefore were not classified as errors for subsidy purposes.</p> <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 was certified without qualification, although our report included an observation relating to the classification of one of the dwellings sold as a high rise flat that should have been classified as a medium rise flat. ■ The Teachers’ Pensions Return was certified without qualification, although our report included an observation that one of the teachers in our sample did not appear on the Teachers’ Pensions Authority (TPA) ‘employer portal’. 	<p>Pages 4 – 5</p>

Audit adjustments	No adjustments were necessary to the Council's grants and returns as a result of our certification work this year.	Pages 4 – 5
Fees	<p>The indicative fee for our work on the Council's 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £30,450. The actual fee for this work was £30,450.</p> <p>Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were £6,500 in total:</p> <ul style="list-style-type: none"> – Pooling of Housing Capital Receipts (£3,000) – Teachers' Pensions Return (£3,500). 	Page 6

Summary of reporting outcomes

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

- Two were unqualified but included an ‘other’ observation; 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 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 overleaf	Qualified	Significant adjustment	Minor adjustment	Other observations	Unqualified
Public Sector Audit Appointments arrangements						
■ Housing Benefit Subsidy	1					
Other assurance engagements						
■ Pooling of Housing Capital Receipts	2					
■ Teachers’ Pensions Return	3					
		1	0	0	2	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.

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Ref	Summary observations	Amendment
1	<p>Housing Benefit Subsidy</p> <ul style="list-style-type: none"> ■ The claim was subject to a qualification letter. The issues raised related to testing errors identified from work undertaken on the claim as summarised below: <ul style="list-style-type: none"> • HRA Rent Rebates <p>Initial and additional sample testing identified seven cases with errors (out of 60 tested) all relating to the incorrect calculation of claimant income. Six of the errors resulted in an underpayment of benefit or had no value impact. They did not affect subsidy and therefore were not classified as errors for subsidy purposes. The remaining case resulted in an over claim of benefit subsidy. The error was small and even after extrapolation (as required by the Department for Work and Pensions) the error was only £5,200.</p> • Rent Allowances <p>Initial and additional sample testing identified four cases with errors (out of 60 tested) all relating to the incorrect calculation of claimant income. All four of the errors resulted in an underpayment of benefit or had no value impact. They did not affect subsidy and therefore were not classified as errors for subsidy purposes.</p>	NIL
2	<p>Pooling of Housing Capital Receipts</p> <ul style="list-style-type: none"> ■ The Pooling of Housing Capital Receipts was certified without qualification, although our report included an observation that one of the Right to Buy sales had been incorrectly entered as a high rise flat in the Department for Communities and Local Government's quarterly 'input data' worksheet. It should have been classified as a medium rise flat. 	NIL
3	<p>Teachers' Pensions Return</p> <ul style="list-style-type: none"> ■ The Teachers' Pensions Return was certified without qualification, although our report included an observation that one of the teachers in our sample did not appear on the TPA Employer Portal. We noted that the Authority had collected the employee and employer pension deductions correctly through-out 2014/15 and paid them across to the TPA. We understand that the Authority has now updated the TPA Employer Portal with the teacher's details. 	NIL

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 **£36,950**.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	30,450	27,102
Pooling of Housing Capital Receipts	3,000	953
Teachers' Pensions Return	3,500	3,500
Total fee	36,950	31,555

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 £30,450. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £27,102 in 2013/14. For comparison the fee was £34,606 in 2012/13.

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 2014/15 were:

- The same as in 2013/14 for the Teachers' Pensions Return.
- For the Pooling of Housing Capital Receipts Return the 2013/14 fee reflects 'Part A' testing only under the previous Audit Commission regime. In 2014/15 the certification of the return was required by the Department for Communities and Local Government (DCLG) and was outside of the Public Sector Audit Appointments regime. DCLG required additional substantive testing as part of its certification requirements in 2014/15, hence the increased fee.



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