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KPMG Annual Report on grants and returns work 2014/15

Stroud District Council

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in connection with this
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	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	5
■ Recommendations	6

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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 £25.2m ■ Under separate assurance engagements we certified 2 claims/returns as listed below: <ul style="list-style-type: none"> – The Decent Homes Backlog Funding claim to HCA with a value of £5.9m. – The Pooling of Housing Capital Receipts Return to DCLG with a value of £2.0m. 	<p>-</p>
<p>Certification results</p>	<p>Our work on the Council's Housing Benefit Subsidy claim resulted in an unqualified certificate.</p> <p>Our work on the other grant assurance engagements resulted in the following reports:</p> <ul style="list-style-type: none"> ■ A factual findings report to HCA regarding the Decent Homes Backlog Funding which noted no issues in the sample testing of expenditure but some differences in reconciling the Council's expenditure listings to the figure on the Claim Form. Both these figures were above the total claimable amount of £5.9m so there was no impact on amount claimed. ■ A report to DCLG on the Housing Capital Receipts Return is to be qualified because we could not perform the required tests to confirm certain information requirements relating to housing stock, as the relevant prime housing records used to populate the Council's housing records spreadsheet could not be located by the Council. 	<p>Pages 3 – 4</p>
<p>Audit adjustments</p>	<p>Adjustments were necessary to two of the Council's grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ The Housing Benefit Subsidy claim had one minor adjustment. ■ The Housing Capital Receipts Return is to be adjusted as the cell for new build expenditure (for which capital receipts are allowed to be retained by the Council) was found to include expenditure on existing properties. This has resulted in an adjustment of £1.3m. 	<p>Pages 3 – 4</p>
<p>Fees</p>	<p>The indicative fee for our work on the Council's 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £10,120. The actual fee for this work was the same as the indicative fee.</p> <p>Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were:</p> <ul style="list-style-type: none"> ■ Decent Homes Backlog Funding - £3,500 ■ Pooling of Housing Capital Receipts - £3,000 	<p>Page 5</p>

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

- none were unqualified with no amendment;
- one was unqualified but required some amendment to the final figures; and
- two 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	Unqualified
Public Sector Audit Appointments arrangements					
■ Housing Benefit Subsidy	1				
Other assurance engagements					
■ Decent Homes Funding	2				
■ Pooling of Housing Receipts	3				

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 Benefit Subsidy</p> <ul style="list-style-type: none"> The Housing Benefit Subsidy claim was amended by £91 to reflect an underpayment relating to one case. This was identified in our variance analysis testing of the claim form as it was only the case which used cell 23 (Non-HRA rent rebate expenditure attracting full-rate subsidy which is not otherwise separately identified on the form). Based on the size of the issue, there is no significant risk to the Council but it could be eliminated in future years by a review of the claim form for unusual changes in cells before making the form available for audit. 	+£91
2	<p>Decent Homes Backlog Funding</p> <ul style="list-style-type: none"> Our report to HCA regarding the Decent Homes Backlog Funding noted some differences in reconciling the Council's expenditure listings to the figure on the Claim Form. Both these figures were above the total claimable amount of £5.9m so there was no impact on amount claimed. In our testing we also encountered some issues in reconciling the individual transaction lines in the Council's grant allowable expenditure records (which is a spreadsheet kept outside the main finance system) to prime records such as invoice for a couple of the items sample tested; we eventually identified that this was due to two transaction values being erroneously swapped while being typed into the spreadsheet, with no overall impact on the total claim. There is a risk of possible reclaim of grant income if the Council does not maintain accurate expenditure records in relation to future grant claims. 	N/A
3	<p>Pooling of Housing Capital Receipts</p> <ul style="list-style-type: none"> A report to DCLG on the Housing Capital Receipts Return which is still to be finalised due to some outstanding testing (see below), but will be qualified as a result of our inability to perform the test to agree a sample of RTB disposals including in the quarterly 'input data' worksheet to confirm that the archetypes, bedroom numbers, 1999 valuations and PFI status have been recorded correctly, as the relevant prime housing records used to populate the Council's housing records spreadsheet could not be located by the Council. In addition, the return is to be adjusted as the cell for new build expenditure (for which capital receipts are allowed to be retained by the Council) was found to include expenditure on existing properties. This has resulted in a reduction in the new build expenditure retained of £1.3m. We have not yet concluded the testing on the adjusted new build expenditure figure at the time of writing, as we are awaiting some supporting evidence from the Council. This adjustment will not impact on the Council's payment into the Housing Receipts Pool for 2014/15 as it paid over the full amount of receipts. However, there may be an impact in future years as the Council needs to pay over housing capital receipts to DCLG if these are not spent on new build within 3 years, and the reduction in applicable spend may mean that the Council will need to pay over some of these receipts starting in 2016/17. 	-£1.3m

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 £16,620.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	10,120	10,254
Pooling of Housing Capital Receipts	£3,000	2,348
Decent Homes Backlog Funding	£3,500	-
Total fee	16,620	12,602

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 £10,120. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £10,254.

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 more than those in 2013/14. The reason for the increase/decrease was:

- There was no Decent Homes Backlog Funding received by the Council in 2013/14 and therefore no requirement for certification; and
- The Pooling of Housing Capital Receipts return was certified under the PSAA regime in 2013/14 which required detailed testing only on a cyclical basis, with 2013/14 being a limited testing year. The new requirements agreed directly with DCLG require more detailed testing on an annual basis.

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

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>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Housing Benefit Subsidy					
<p>Error in cell 12</p> <p>An underpayment was identified in cell 23 as a result of our analytic review which subsequently required amendment in the final form. This issue could have been identified by the Council had it performed a review of the form for unusual cells, as cell 12 does not usually have any entries.</p>	<p>Failure to undertake a review of the claim form prior to submission to the auditor increases the risk that errors such as this are not identified by management and that incorrect subsidy may be claimed.</p>	<p>1</p> <p>Review the claim form for unusual variances within cells before approving the pre-audit form.</p>	<p>3</p>	<p>This had been identified as an issue and discussed. Future claim forms will be reviewed</p>	<p>April 2016 / November 2016</p> <p>Simon Killen / Susan Turner</p>
Decent Homes Backlog Funding					
<p>Errors in client grant supporting records</p> <p>In our work we identified some differences between the total of the Council's expenditure breakdown and the figure recorded on the Claim Form. In addition, there were some errors identified in the transaction values entered within the expenditure breakdown.</p>	<p>There is a risk of possible reclaim of grant income if the Council does not maintain appropriate expenditure records in relation to future grant claims.</p>	<p>2</p> <p>Review its process for recording grant eligible expenditure to ensure that transactions recorded agree to invoices and that the expenditure listing reconciles to the claim form.</p>	<p>2</p>	<p>For any future grant claims further checks will be made to ensure hard copy evidence can be reconciled back to systems and that in the case of quarterly claims, more checks are made to ensure expenditure has not already been claimed in a previous quarter</p>	<p>March 2016</p> <p>Sandra Cowley</p>

Recommendations (continued)

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Pooling of Housing Capital Receipts					
<p>Errors in recording new build expenditure</p> <p>The return is to be adjusted as the cell for new build expenditure (for which capital receipts are allowed to be retained by the Council) was found to include expenditure on existing properties. This has resulted in an adjustment of £1.3m.</p>	<p>The Council needs to pay over retained housing capital receipts to DCLG if these are not spent on new build within 3 years.</p> <p>The reduction in applicable spend may mean that the Council will need to pay over some of these receipts in future years and may be exposed to a shortfall in funding for housing capital expenditure as a result.</p>	<p>3</p> <p>Review the new build expenditure recording process to ensure that it captures only new build expenditure and not expenditure on existing properties</p>	<p>1</p>	<p>Total invoiced expenditure for each housing development is to be apportioned on a square footage basis between types of property. This will separate costs for those properties that are new build, replacement or shared ownership</p>	<p>March 2016 Ian Garrett</p>



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