



cutting through complexity

KPMG Annual Report on grants and returns work 2014/15

Sheffield City Council
January 2016



Contents

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	Page
■ Headlines	2-3
■ Summary of certification work outcomes	4-7
■ Fees	8
■ Recommendations	9-10
■ Prior year recommendations	11

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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. 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 as follows:</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 £195.9 million. ■ Under separate assurance engagements we certified 2 claims/returns as listed below: <ul style="list-style-type: none"> ■ Pooling Capital Receipts; and ■ Teachers' Pension Return. 	<p>Page 4</p>														
<p>Certification results</p>	<p>Our work on the Council's Housing Benefit Subsidy claim was subject to a qualification letter.</p> <p>Qualification issues that have arisen both this year and in previous years are shown below:</p> <ul style="list-style-type: none"> ■ The following issues had no impact on subsidy: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%; text-align: left;">Area tested</th> <th style="width: 60%; text-align: left;">Reason qualified</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">The benefits software reconciliation (benefit granted to benefit paid)</td> <td style="padding: 5px;">There was an explained difference of £139 showing on the reconciliation between benefit granted and benefit paid.</td> </tr> <tr> <td style="padding: 5px;">In year reconciliation cells</td> <td style="padding: 5px;">There were rounding issues (£1 to £2) on all three in-year reconciliation cells.</td> </tr> <tr> <td style="padding: 5px;">Backdate cells</td> <td style="padding: 5px;">There were inappropriate cases included in the backdate cells. The pro rata value relating to this overstatement is calculated as £25,946. It should be noted that these cells have no impact on subsidy.</td> </tr> <tr> <td style="padding: 5px;">Taxable income received by claimants</td> <td style="padding: 5px;">Taxable income was found to be inappropriately calculated on some of the cases tested however, these were all underpayment errors so there is no impact on subsidy.</td> </tr> </tbody> </table> <ul style="list-style-type: none"> ■ The other reported issue had a £15 impact on subsidy: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%; text-align: left;">Area tested</th> <th style="width: 60%; text-align: left;">Reason qualified</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Board and Lodging eligible rent calculation</td> <td style="padding: 5px;">Our tested cases proved that ineligible services provided by the landlord, such as meals or laundry costs, were incorrectly included in the rent calculations. Due to the minor values affected the prorata was only £15 overstatement of cell 012, which caused a loss of £15 subsidy.</td> </tr> </tbody> </table>	Area tested	Reason qualified	The benefits software reconciliation (benefit granted to benefit paid)	There was an explained difference of £139 showing on the reconciliation between benefit granted and benefit paid.	In year reconciliation cells	There were rounding issues (£1 to £2) on all three in-year reconciliation cells.	Backdate cells	There were inappropriate cases included in the backdate cells. The pro rata value relating to this overstatement is calculated as £25,946. It should be noted that these cells have no impact on subsidy.	Taxable income received by claimants	Taxable income was found to be inappropriately calculated on some of the cases tested however, these were all underpayment errors so there is no impact on subsidy.	Area tested	Reason qualified	Board and Lodging eligible rent calculation	Our tested cases proved that ineligible services provided by the landlord, such as meals or laundry costs, were incorrectly included in the rent calculations. Due to the minor values affected the prorata was only £15 overstatement of cell 012, which caused a loss of £15 subsidy.	<p>Pages 5-6</p>
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<p>Certification results continued</p>	<p>New qualification issues – neither have any impact on subsidy:</p> <table border="1" data-bbox="365 262 649 1732"> <thead> <tr> <th data-bbox="365 1480 568 1732">Area tested</th> <th data-bbox="365 262 568 1480">Reason qualified</th> </tr> </thead> <tbody> <tr> <td data-bbox="568 1480 649 1732">Re-classification between cell 098 and 099 relating to rental expenditure limits.</td> <td data-bbox="568 262 649 1480">Although some cases were correctly reclassified from cell 099 to cell 098 this year on the claim form, only the adjustments that affected the 2014/15 subsidy year were made. Prior period benefit awarded was not adjusted into the appropriate cell. Subsidy is not affected as the cell values attract the same level of subsidy.</td> </tr> <tr> <td data-bbox="649 1480 738 1732">Board and Lodging</td> <td data-bbox="649 262 738 1480">An underpayment was made to a claimant, with a total value of £131,54, due to a manual assessment error overlooking two weeks of claimant benefit. Underpayments have no impact on subsidy.</td> </tr> </tbody> </table> <p>Our work on the other grant assurance engagements did not highlight any qualification issues to report.</p>	Area tested	Reason qualified	Re-classification between cell 098 and 099 relating to rental expenditure limits.	Although some cases were correctly reclassified from cell 099 to cell 098 this year on the claim form, only the adjustments that affected the 2014/15 subsidy year were made. Prior period benefit awarded was not adjusted into the appropriate cell. Subsidy is not affected as the cell values attract the same level of subsidy.	Board and Lodging	An underpayment was made to a claimant, with a total value of £131,54, due to a manual assessment error overlooking two weeks of claimant benefit. Underpayments have no impact on subsidy.	<p>Page 6</p>
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<p>Audit adjustments</p>	<p>Many of the adjustments completed on last year's Housing Benefit claim were avoided this year by the Council completing early work. Only three adjustments were necessary to the Housing benefits return as a result of our certification work this year. These are detailed below.</p> <p>The first issue below has been an issue since 2013/14, the latter two issues are new.</p> <ul style="list-style-type: none"> ■ The Local Housing Allowance (LHA) rate changed in 2013/14 and the system failed to apply this to the two bedroom rate cases. This has affected a minor number of cases in the 2014/15 subsidy claim leading to a total overpayment of benefit of £72. This led to post-audit amendments: but doesn't affect the level of subsidy awarded as the Council is under the total allowable error value. ■ A corrected error on one traveller claimant's benefit, regarding calculation of the rent free week adjustment, led to a classification error and a £29 overpayment. The audited claim reclassified this £29 from cell 028 to cell 027. There is no subsidy impact. ■ One modified scheme was not a genuine case. Further testing of all modified claimants proved this was the only case. The result was a reduction of £302, which affects subsidy by the same value. <p>There were no audit adjustments to the other engagements; Pooling Capital Return and Teachers' Pension Return.</p>	<p>Pages 7</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 £25,500. No changes were made to the actual fee charged. Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were:</p> <ol style="list-style-type: none"> 1. Pooling Capital Return: £2,750 2. Teachers' Pension Return: £3,250 	<p>Page 8</p>						

Overall, we carried out work on 3 grants and returns:

- 2 were unqualified with no amendment; and
- 1 required a qualification to our audit certificate and was also amended.

Detailed comments on the issues raised 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(s)	Unqualified
Public Sector Audit Appointments arrangements					
■ Housing Benefit Subsidy	1	●		x3	
Other assurance engagements					
■ Pooling Capital Receipts	2	●			●
■ Teachers' Pension	3	●			●

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

Ref	Summary observations	Amendment
1	<ul style="list-style-type: none"> <li data-bbox="412 75 592 1535">■ Taxable income received by claimants: Taxable income is still an area where errors are being made in calculations due to the complexities and specific individual circumstances that can arise within a claimant's income. This year five claimants were being underpaid due to incorrect calculations in their weekly income. Underpayments increase the risk to the Council of loss of income on the Council's rental properties due to none paid rents, as well as the distress and hardship caused to claimants. <li data-bbox="597 75 743 1535">■ Board and Lodging eligible rent calculation: The calculation of the Board and Lodging eligible rent continued to be an issue in 2014/15. The errors (4/49 of our samples) occur due to not deducting or miscalculating ineligible services due to complexities in the calculations and information provided from the landlords. However, our work has only ever produced very minor values in the pro-rata qualifications and subsequent reductions in subsidy (2014/15 findings led to a £15 reduction). <li data-bbox="748 75 841 1535">■ Board and Lodging - cell 012: An underpayment on the Board and Lodging cell 012, of £131.54, was found in 2014/15 due to a manual assessment error overlooking two weeks of claimant benefit. <li data-bbox="846 75 1032 1535">■ Re-classification between cell 098 and 099: There are several laws for private tenants' benefit calculations and each one as a separate cell on the claim form. Claims that should be included in cell 098, previously included in cell 099, were reviewed and correctly moved by the Council in 2014/15 pre-audit. We reported this in the qualification letter as the re-classification was only done for the 2014/15 subsidy year and so there were still known errors in the prior year information, which could have been adjusted for in the prior year cells. Subsidy is not affected as both cells attract the same level of subsidy. 	<p>£0</p> <p>£15</p> <p>£0</p> <p>£0</p>

This table continues to summarise the key issues behind each of the adjustments or qualifications that were identified on the previous pages.

Ref	Summary observations	Amendment
1	<p><u>Adjustments issues</u></p> <p>Three audit adjustments were made to the Housing benefits return this year as detailed in the headlines section of this report. Of these three adjustments though, two related to specifics on individual cases that are not expected to arise again in the future (that is the travellers rent free week overpayment error and the incorrectly classified modified scheme).</p> <p>The Council will however have to address issues regarding the Local Housing Allowance (LHA) rate reduction to prevent further adjustments in future years. This adjustment arose as the LHA rate changed in 2013/14 and the system failed to apply this to the two bedroom rate cases. This has affected a minor number of cases in the 2014/15 subsidy claim leading to a total overpayment of benefit of £72. This led to post-audit amendments: but doesn't affect the level of subsidy awarded as the Council is under the total allowable error value.</p>	<p>(no subsidy effect) -£302</p> <p>-£72</p>

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 £31,500.



Breakdown of fees for grants and returns work

Breakdown of fee by grant/return	2014/15 (£)	2013/14 (£)
BEN01 – Housing Benefit subsidy claim	25,500	34,001
Pooling of Housing Capital Receipts	2,750	1,920
Teacher’s Pensions Return	3,250	3,250
Total fee	31,500	39,171

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 £25,500. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £34,001, which has been reduced by PSAA given the centrally reduced costs from the closure of the Audit Commission.

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 increased slightly to account for additional testing required for one of the returns (Pooling Capital Receipts).

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

Priority rating for recommendations			Comment	Responsible officer and target date	
Issue	Implication	Recommendation	Priority		
<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>					
<p>Pre-submission work The pre-submission work on known issues (CAKE) completed by the Council in 2014/15, aided the audit process and reduced the amount of the additional work required.</p> <p>Rounding qualification issues There are usually minor qualification issues on the benefit software reconciliation and on rounding differences of in-year-reconciliation-cells to headline cells.</p> <p>Backdates Backdates continues to be an area where regular errors are made (stating benefit as a backdate when it is genuine ordinary benefit).</p>	<p>Additional audit work leads to increases in fee and delays in the audit process.</p> <p>Unnecessary minor qualification issues.</p> <p>As this is an information only cell there is no subsidy impact and changes to auditor requirements means no work or reporting will be required on this in 2015/16.</p>	<p>1 The Council should complete the agreed pre-submission work again in 2015/16.</p> <p>2 If the Council wishes to remove these qualification issues it should add rounding and other adjustments to spreadsheets used to compile the claim form and explain the movements.</p> <p>3 The Council should consider reviewing its smaller backdate case load in the Non-HRA headline cell 011 and make amendments to the claim pre-audit.</p>	<p>2</p> <p>3</p> <p>3</p>	<p>Agreed but auditor to provide a list of agreed pre submission work.</p> <p>We are not proposing to do this as we are not expecting a qualification next year as covered in Q7 HB Subsidy Claims- LA Best Practice Guide version 2 "....the next auditor guidance to be produced 2015/16, auditors will be instructed not to qualify claims when in-year reconciliation failures on the final subsidy claim are due solely to roundings between HB system outturn reports & the entries made on the claim form".</p> <p>Agreed All Non HRA backdates to be checked and amended pre claim submission date. Advice to be issued to assessment managers reminding of correct procedure.</p>	<p>Dave Mendham. Target date 30.04.16</p> <p>N/A</p> <p>Dave Mendham 30.04.16 29.02.16</p>

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<p>Taxable income Calculating the claimants appropriate taxable income is a complex area and our testing continues to find errors in these calculations. This year we found five claimants that were underpaid due to incorrect calculations of their weekly income.</p>	<p>Underpayments increase the risk to the Council of loss of income on the Council's rental properties due to none paid rents. In addition it may lead to distress and hardship to the claimants.</p>	<p>4 The Council should remind assessors to use standard templates when calculating taxable income.</p>	<p>2</p>	<p>Agreed Advice to be issued to assessment managers reminding of correct procedure.</p>	<p>Dave Mendham 29.02.16</p>
<p>LHA reduction adjustment Some claimants may still have claims that include the overstated LHA rate from 2012/13 in the 2015/16 subsidy grant benefit calculations.</p>	<p>The 2015/16 overstated subsidy value in respect of this issue is expected to be lower than in previous years. But if cases are left unchanged this will result in an amendment to the 2015/16 claim.</p>	<p>5 The Council should consider reviewing and resolving this issue before the 2015/16 claim is submitted to avoid audit adjustments.</p>	<p>3</p>	<p>Agreed. Subsidy officer to get confirmation from Policy & Procedure officer that these have all been actioned for 2015/16.</p>	<p>Dave Mendham 30.03.16</p>

We made five recommendations in our 2013/14 Certification of Grants and Returns Annual Report. Where recommendations have not yet been implemented fully we have detailed their current status below. There is also one outstanding recommendation from 2012/13.

Prior year recommendation		Priority	Status as at January 2016	Management comments
Incorrect taxable income calculated for assessments				
1	The Authority / Capita should reinforce this area when training staff, and carry out specific quality checks to reduce the number of errors.	2	Although the Council has attempted to address this recommendation by reinforcing the message - the 2014/15 audit still found errors in the taxable income therefore the recommendation is carried forward.	Taxable income is one of the more complex areas of claims administration and therefore susceptible to a higher risk of error. Further guidance will be issued to ensure staff are aware of the correct procedure to follow. This will be reinforced through the quality checking regime.
Ordinary benefit misstated as backdates				
2	The Authority / Capita should reinforce this area when training staff, and carry out specific quality checks to reduce the number of errors.	3	Although the Council has attempted to address this recommendation by reinforcing the message - the 2014/15 audit still found errors in the taxable income. However, we understand that due to changes in auditor guidance we will no longer be required to qualify this in 2015/16.	There are no subsidy, performance or customer service implications arising from these misclassification errors. Consequently the audit will no longer be required to report on them in future years. However, further guidance will be issued to ensure staff are aware of the correct procedure to follow. This will be reinforced through the quality checking regime.
2012/13 outstanding recommendations				
1	The Authority /Capita should identify why backdate misclassifications have occurred and take appropriate action to ensure that similar errors are avoided in future.	3	This issue has been reported in each of the last two years but errors on backdating continued to occur in the 2014/15 claim. However, we understand that due to changes in auditor guidance we will no longer be required to qualify this in 2015/16.	There are no subsidy, performance or customer service implications arising from these misclassification errors. Consequently the audit will no longer be required to report on them in future years. However, further guidance will be issued to ensure staff are aware of the correct procedure to follow. This will be reinforced through the quality checking regime.



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