



cutting through complexity

KPMG Annual Report on grants and returns work 2014/15

Brent Council
February 2016

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Introduction and background	<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 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 £351 million. ■ Under separate assurance engagements we certified two returns as listed below. <ul style="list-style-type: none"> – Teachers' Pension Return (£15.3 million); and – Pooling of Housing Capital Receipts Return (£1 million). 	<p>-</p>
Certification results	<p>Our work on the Council's Housing Benefit Subsidy claim was subject to a qualification letter. The main qualifications related to errors arising as a result of the calculation of self employed income for benefit purposes.</p> <p>Our work on the other grant assurance engagements resulted in unqualified assurance reports.</p>	<p>Pages 3 – 5</p>
Audit adjustments	<p>Adjustments of £10,746 were necessary to the Teachers' Pension Return and £12,078 to the Housing Benefit Subsidy Claim as a result of our work this year. There were no adjustment required to the Pooling of Housing Capital Receipts Return.</p>	<p>Pages 3 – 5</p>
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 £29,540. The actual fee for this work was £29,540.</p> <p>Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were £6,000 in total.</p>	<p>Page 6</p>

Summary of certification work outcomes

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

- One was unqualified with no amendment;
- One was unqualified but required a minor amendment to the final figures; and
- One required a minor amendment and 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					
■ Teachers' Pension Return	2				
■ Pooling of Housing Capital Receipts Return	3				
		1	-	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 as well as general observations.

Ref	Summary observations	Amendment
1	<p>Housing Benefit Subsidy</p> <p>Our initial testing of 60 cases identified two errors where the Council had used the outside of London cap of £375 rather than the inside of London cap of £500. The total error between the two cells on the claim form affected was £99. We tested an additional 40 cases for rent rebates for Non HRA tenants which is where the errors occurred and found no additional errors. If the Department was to use our extrapolated figure for the error, the Council's subsidy would increase by £2,750. There is no impact on the amount payable to claimants.</p> <p>As we identified errors in the calculation of self employed income for benefit purposes in 2013/14, with 35 errors found in total for our specific testing of 85 cases (41%), we tested the calculation of self employed income for benefit purposes for 126 cases this year. This testing identified 32 errors (25%) with four overpayments of housing benefits, 15 underpayments of housing benefits and 13 cases where there was no impact on the individual claim.</p> <p>It should be noted that 28 out of the 32 cases where errors were found did not impact on the amount of Housing Benefit Subsidy being claimed by the Council. Our extrapolation of the four overpayments totalled approximately £510,000. It should be noted that one of the errors was for £5,144 for the year where the self employed income included in the claim could not be substantiated and this accounted for £493,000 of the extrapolation. However, due to the Council being below their threshold for LA error and Administration delays, this is likely to have minimal effect on the subsidy claimed.</p> <p>The uncertified claim was submitted to KPMG by the deadline and the certified claim was submitted to the Department by their audit certificate deadline. Adjustments totalling £12,078 were made between the claim submitted to KPMG by the Council and the final signed claim. These related to manual errors in the compilation of the claim including transposition errors.</p> <p>As can be seen above, the percentage errors found on the calculation of self employed income for benefit purposes decreased from the previous year but remained high. The Council only became aware of the error rate in October/November 2014 and implemented actions to strengthen the controls by January 2015. To assess the impact of these changes we looked at the number of errors from our sample that arose in February and March 2015. We found that three errors had occurred in this period which is an improvement on the first ten months of the year but still not where the Council should be. This indicates the revised arrangements either weren't fully embedded or not operating as expected.</p> <p>The Council has provided a detailed response to our findings explaining the actions taken which we have included as Appendix 1.</p>	<p>Reduce amount claimed by £12,078</p>

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications as well as generally observations.

Ref	Summary observations	Amendment
2	<p>Teachers' Pension Return</p> <p>The uncertified return was submitted to KPMG by the deadline and the certified return to the Teachers' Pension Agency by their certification deadline. Individual teachers contribute to the scheme at different rates depending on their annual salary or pro rata annual salary for part time staff. Our initial analytical review identified there had been some unexplained movements between the bandings of different rates and our testing confirmed some part time staff were paying the incorrect rate. Officers identified that approximately 60 part time staff had been effected following the change to Oracle in August 2014. The error arose we understand due to how the new system grossed up part time hours. The return, which is the amount payable by the Council to Teachers' Pension Agency, was increased by £10,746. This is also the amount by which deductions for pension contributions from teachers have been incorrectly calculated.</p>	<p>Increase payment by £10,746</p>
3	<p>Pooling of Housing Capital Receipts</p> <p>The return was submitted to KPMG by the deadline. The supporting working papers provided were good and helped our work run smoothly. The return was unqualified and did not require any amendments.</p>	<p>£Nil</p>

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on 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 £35,540

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	29,540	27,753
Teachers' Pension Return	3,000	3,000
Pooling of Housing Capital Receipts*	3,000	2,245
Total fee	35,540	32,998

* The audit fee for this return was in 2013/14 set by Public Sector Audit Appointments and we had to comply with a different work programme than that which was required by the Department this year.

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 £29,540. Our actual fee was the same as the indicative fee set,

Grants subject to other assurance engagements

The fees for our assurance work on other returns are agreed directly with the Council. The Council provided the required working papers and addressed our queries that meant no additional fees were required.

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>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Analytical reviews					
<p>Teachers' Pension Return</p> <p>An analytical review of the breakdown within the return compared to the previous year and follow up of major movements would have identified the return was incorrect.</p>	<p>The amount of payment to be made to the Teachers' Pension Agency was incorrect.</p>	<p>1 Compare all grant claims and returns with the previous year and ensure any major movements are fully understood and valid.</p>	<p>2</p>	<p>Agreed. Subject to noting that the method of calculating the appropriate banding for part timers changed in April 2015</p>	<p>Mildred Philips HR Director</p> <p>Immediate</p>
Financial systems					
<p>Annual deduction rates</p> <p>Part time staff were allocated to the incorrect band for pension contributions.</p>	<p>Staff were having the wrong amount of pension contributions deducted from their salaries resulting in them underpaying their contribution.</p>	<p>2 Test check all payroll deductions on a regular basis especially when there are either system changes or changes in banding ranges or deduction rates.</p>	<p>2</p>	<p>Agreed</p>	<p>Mildred Philips HR Director</p> <p>Immediate</p>

Prior year recommendations

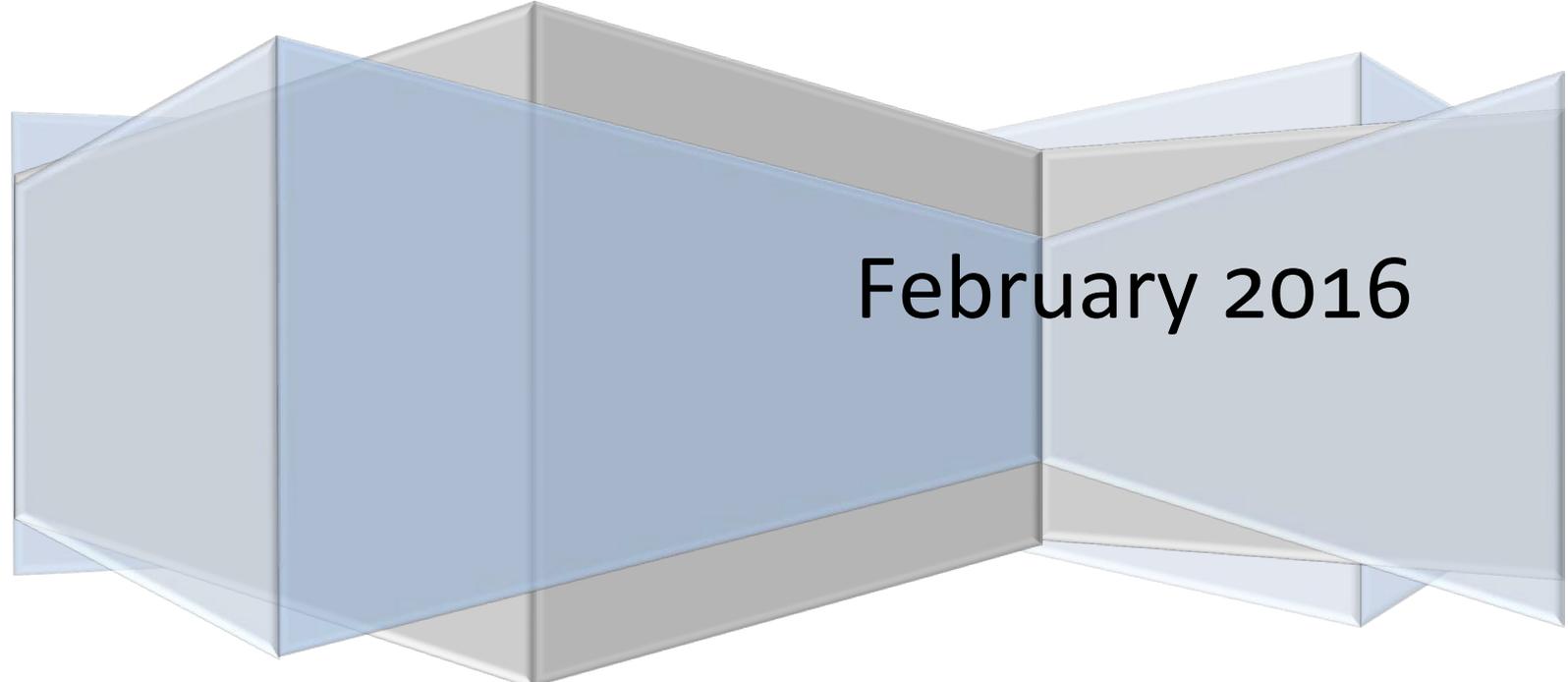
We made three recommendations in our 2013/14 Certification of Grants and Returns Annual Report. Where recommendations have not yet been implemented fully we have detailed their current status below.

Prior year recommendation	Priority	Status as at November 2015	Management comments
Housing Benefits			
1 Review in detail the reasons for errors relating to self employed income calculations for benefit purposes and put in place arrangements to ensure all figures used in the calculation of self employed income are accurate and fully supported.		While our sample indicated the error rate had reduced, the Council needs to ensure the arrangements it put in place in January 2015 are embedded and operating as expected.	See attached Appendix 1 for detailed action taken.

Response to KMPG Grant Report

A brief overview of Subsidy audit findings and
follow up actions during the past two years

Russell Gibbs, Benefits Subsidy & Policy Manager



February 2016

Summary of Self Employed Errors & Remedial Actions

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2013/14 Subsidy Audit

Initial Findings

The findings of the 2013/14 Subsidy Audit identified weaknesses in the processing of Self Employed claims. The two key areas of weakness identified were as follows:

1. **Accurately recording the decision that was made, including the rationale behind the decision and what evidence it had been based upon:** A lack of clarity regarding what decision had been made in respect of income periods and expenses was a particular issue as was referencing where supporting documentation could be found.
2. **Consistent and thorough approach for recording allowable Self Employed Expenses:** Detailing which expenses had been allowed, what deductions had been made and what category that had been recorded against within the system was highly inconsistent.

Response

A corrective plan of action was produced to address any areas of weakness. The objective of this plan was to review and improve the controls designed to ensure the figures used in the calculation of self employed income were accurate and fully supported. This was essentially a 3-stage action plan that involved the creation of new controls, the briefing of staff on their implementation and compliance checking via the quality assurance framework. This plan was successfully implemented with the following key milestones

1. **22nd January 2015:**
 - Minimum Standard File Note creation tool designed, agreed and a tested
 - Self Employed Expense template designed, agreed and tested
2. **31st January 2015:**
 - All staff briefed on the mandatory use of the new Minimum Standard File Note and Self Employed Expense Template
3. **02nd February 2015:**
 - Minimum Standard File Note and Self Employed Expense Template live and subject to the quality assurance checking process
4. **31st March 2015:**
 - Minimum 10% check of the Self Employed caseload completed (396 claims eventually checked equating to 11.4%). This was a combination of full quality assurance checks on all aspects of assessments involving self employed customers and intervention work looking solely at the accuracy and supporting documents for self employed assessments

Results of the Minimum 10% Check

The checks completed were a combination of new assessments from February 2015 and cases that were in payment throughout 2014/15.

The results of that exercise are summarised in the table below:

Outcome	Number of cases	Percentage of total checked	Weekly error rate	Weekly entitlement
Case correct for subsidy audit purposes	361	91.2%	£0.00	£71,196.75
Case incorrect but with no financial impact	20	5.1%	£0.00	£3,961.66
Case incorrect and causing an overpayment	7	1.8%	£85.49	£1,551.86
Case incorrect causing an underpayment	8	2.0%	£0.00	£1,227.81
Total	396	100.0%	£85.49	£77,938.07

Notes to the table

- The number of cases where an error was identified that would fail at audit was 35 representing 8.8% of the total checked.
- However, in 20 of the cases, the error in the assessment, once corrected, did not affect entitlement. A further 8 cases led to an underpayment of Housing Benefit which are not used as part of the extrapolated error calculation for subsidy audit purposes.
- 7 cases were identified which had errors causing an overpayment of Housing Benefit. The total weekly error rate was £85.49 which was 0.11% of the total weekly entitlement in the sample.
- The total weekly entitlement of all self employed Housing Benefit cases is £750,810. Had the error rate discovered during the intervention work been applied to the total self employed population, the extrapolated error would have been £42,324 (full year figure).
- The results of the checking exercise indicated that the rate of errors was decreasing, though further work was planned during the second quarter to ensure that accuracy – and the standard of file note and supporting evidence – continued to improve.

Ongoing Monitoring: 2015/16

Monitoring Usage of Self Employed Controls/Resources

Throughout the first two quarters of 2015/16, analytics regarding the frequency with which officers accessed the Help & Guidance resources available to them was very promising, particularly with regards to Self Employed Income. The table below shows the top four items accessed by staff between February 2015 and the end of September 2015:

Benefits Help & Guidance Items February 2015 to October 2015		
Rank	Resource Accessed	Number of times accessed
1	File Note Creator	3,507
2	Visit Benefit Directory	881
3	SE Expenses Calculator	709
4	SE Procedures	118

It should be noted that the top two items accessed are relevant to all types of assessments carried out not just Self Employed claims. Therefore, from a topic specific perspective, Self Employed information and tools provided for benefit staff were being used more than any other.

Quality Assurance & Complaint Monitoring

Ongoing quality assurance work during the first two quarters of 2015/16 highlighted ongoing issues in the processing of Self Employed claims. Errors surrounding the recording of Self Employed expenses and the referencing of supporting documentation was improved and no longer appeared to be the core issue. However, decision making surrounding the provision of evidence, as well as inconsistencies in the levels of additional questioning for self employed income was highlighted. In addition to this, the issue of officers failing to deduct the relevant levels of notional national insurance was also causing errors, though this is a problem that has occurred sporadically over time.

In addition to the quality assurance work being carried out, monitoring of complaints also identified issues arising from the processing of Self Employed claims. Any errors identified by quality assurance checks or complaint monitoring were feedback to individuals and team leaders along with reminders of the correct processes and procedures that should be followed.

2014/15 Subsidy Audit

Findings

The initial testing of 60 claims did not result in any errors being identified in relation to Self Employed income. However, due to the errors identified in the 2013/14 Subsidy Audit, 40+ testing for Self Employed claims was carried out against all three areas of expenditure; meaning 120 Self Employed claims were tested in all.

This testing resulted in the detection of 34 errors - 59% of which impacted the level of benefit that should have been paid. This is detailed in the table below:

No Impact	Overpaid	Underpaid	Total
14	4	16	34
41%	12%	47%	100%

Further Analysis

Further analysis of the 34 claims highlighted that failing to deduct the correct levels of National Insurance or Tax was present 53% of the time, with the next most common error relating to expenses. It should be noted that some claims were subject to more than one type of error, which is the reason that the below table does not total 100%.

Error Type	%
Ni & Tax	53%
Expenses	29%
Income overstated	18%
Period	15%
Missing Documents	6%

However, of those 34 errors, only 3 errors fell between February and April 2016 - the point after which additional controls were implemented following the weaknesses identified in the 2013/14 Subsidy Audit. Furthermore, all 3 errors were such that they did not affect the level of benefit that should have been awarded.

Self Employed Policy & Procedure Review

Revised Policy

The findings of the 2014/15 Subsidy Audit, in relation to Self Employed incomes processed between February and April 2015, did not result in any errors that impacted the levels of benefit that had been awarded. However, the findings of the 2013/14 Subsidy Audit, coupled with ongoing monitoring of Self Employed claims during the first two quarters of 2015/16, led to the decision to carry out a fundamental review of Brent's Self Employed policies and procedures at the beginning of quarter 3.

A completely revised Self Employed policy was drafted by December 2015 and is presently in the process of being rolled out to staff; with all staff briefings due to be completed by the end of the first week in March 2016. The revised policy takes a simplified and risk based approach that is anticipated to significantly reduce the rate of error, making it no more prone to error than any other discrete area.

Interventions

A resource will be made available over the course of 2016/17 in order to carry out as many interventions as possible on existing Self Employed claims; ensuring that as high a proportion of these claims are assessed under the new policy and thus safeguarding against repeat issues in the 2016/17 Subsidy Audit.