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# Certification of grants and returns 2010/11

Kettering Borough Authority

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**The contacts at KPMG  
in connection with this  
report are:**

**Saverio Della Rocca**

*Director*

Tel: 0121 335 2367

saverio.dellarocca@kpmg.co.uk

**Liz Astbury**

*Senior Manager*

Tel: 0116 256 6270

elizabeth.astbury@kpmg.co.uk

**Nelesh Patel**

*Assistant Manager*

Tel: 0121 2323499

nelesh.patel@kpmg.co.uk

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If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Saverio Della Rocca who is the engagement leader to the Authority (telephone 0121 3352367, e-mail: saverio.dellarocca@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

<p>Introduction and background</p>	<p><b>This report summarises the results of work on the certification of the Authority's 2010/11 grant claims and returns.</b></p> <ul style="list-style-type: none"> <li>■ In 2010/11 we certified:             <ul style="list-style-type: none"> <li>– 4 grants with a total value of £28.7m; and</li> <li>– 2 returns with a total value of £27.0m.</li> </ul> </li> </ul>	<p>-</p>
<p>Certification results and adjustments</p>	<p><b>We issued unqualified certificates for 4 grants and returns and qualified 2 claims.</b></p> <ul style="list-style-type: none"> <li>■ We issued qualified certificates for the HRA Base Data return and the Housing Benefit and Authority Tax Benefit Claim (HBCT claim).</li> <li>■ Our testing of the HRA Base Data Return highlighted that 15 housing units were classified into the incorrect archetypes. As a result, we issued a qualification letter as we could not confirm that the whole claim was fairly stated. We also noted in the qualification letter non-monetary adjustments required to 4 cells which were amended in the final return. The return was also qualified last year. Whilst the return was qualified this year, the Authority have made significant progress in addressing the underlying cause of the qualification. This is detailed further at page 7.</li> <li>■ Our testing of the HBCT claim identified a number of errors in our initial sample. The Council undertook a further sample which highlighted further errors. Due to the fact that it was not possible to perform a statistically significant sample size to gain assurances that the claim was fairly stated, we extrapolated the error found in our sample of £6,543.88 and issued a qualification letter in line with the guidance issued by the Audit Commission. The Authority has identified and implemented a range of measures to address these issues.</li> </ul>	<p>Pages 3 – 4</p>
<p>The Authority's arrangements</p>	<p><b>The Authority has good arrangements for preparing its grants and returns and supporting our certification work but some improvements are required.</b></p> <ul style="list-style-type: none"> <li>■ Generally the Authority provided good quality working papers.</li> <li>■ Grants were made available to us in a timely manner in line with the agreed audit timetable.</li> <li>■ All grants and returns were certified by the deadline except for the HRA Base Data Return. The Department for Local Communities approved an extension to the deadline, so that the Authority could provide additional evidence to support the certification. The revised deadline was met.</li> <li>■ The Authority has appointed a Data Officer who has made progress in the cleansing and verification of the housing management data which is used to compile the HRA Base Data Return. The Officer has reconciled data from numerous sources to consolidate and verify the housing management data. However our testing highlighted, and subsequent qualification certificate confirmed, that arrangements can be further strengthened. We have raised a recommendation at page 7.</li> </ul>	<p>Page 5</p>
<p>Fees</p>	<p><b>Our overall fee for the certification of grants and returns is £50,600. This was 6% higher than in 2009-10.</b></p> <ul style="list-style-type: none"> <li>■ The main increase related to the HRA Base Data return. This fee increased by c£4k due to additional testing required as set out on page 6.</li> <li>■ We have raised a recommendation which will help the Authority to strengthen the controls and processes over the HRA Base Data return and therefore reduce the future grant fee.</li> </ul>	<p>Page 6</p>

Overall, we certified 6 grants and returns:

- 3 were unqualified with no amendment;
- 1 grant was unqualified but required some small amendments to the final figures; and
- 2 required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Authority's 2010/11 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.

A qualification means that issues were identified concerning the Authority'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 Authority to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
National Non Domestic Rates Return					
Pooling of Housing Capital Receipts					
HRA Base Date Return	1				
Disabled Facilities Grant					
Housing and Authority Tax Benefit Scheme	2				
HRA subsidy	3				
		2	-	1	3

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>HRA Base Data Return</b></p> <ul style="list-style-type: none"> <li>■ This return was qualified due to the incorrect classification of dwellings. The Authority re-categorised 29 units in the year based on historical surveyor records. Our testing of these 29 re-categorisations highlighted that 15 were incorrectly re-categorised. Our testing relied on the findings of the Authority's internal surveyors who were asked to verify the re-categorisation.</li> <li>■ As a result of our testing, and in line with the certification instructions, we were unable to state that the return was fairly stated. As such a qualification letter was issued.</li> <li>■ We have historically qualified this return on the grounds that we could not rely on the underlying housing management data that was used to form the return. The Authority appointed a Data Officer in the year to verify and cleanse this data. The Authority has made significant progress in addressing the underlying cause of the qualification, although further work is required. Further details on the Authority's progress is noted at page 7 in the follow up of prior year recommendation.</li> <li>■ We will continue to work closely with the Authority to work towards an unqualified certificate for the coming year. We have raised a recommendation at page 7 to help strengthen the arrangements over the process.</li> </ul>	<p><b>No monetary effect</b></p>
2	<p><b>Housing and Authority Tax Benefit Scheme</b></p> <ul style="list-style-type: none"> <li>■ The grant claim was qualified following the results of our testing of a sample of claims.</li> <li>■ Our testing of 34 Authority council tax cases found that 3 cases were classed as a fail against the requirements of the certification.</li> <li>■ Our testing of 34 rent allowance cases, highlighted 5 fails.</li> <li>■ All of these failures were due to errors in income assessments . These errors included incorrect tax deductions used in assessments and human input errors.</li> <li>■ The Authority has implemented preventative and detective controls to ensure these errors are reduced. For example, the Authority has held formal training sessions to consolidate assessors knowledge and introduced a 'buddy' program whereby claims are reviewed by an independent officer.</li> <li>■ Our extrapolation of the error highlighted a potential overpayment of subsidy of £6,337 for council tax cases and £206.88 for rent allowance cases.</li> <li>■ The claim form was not amended to reflect these extrapolations, in line with the guidance issued by the Audit Commission.</li> <li>■ This grant claim has not been qualified in the previous 3 years.</li> </ul>	<p><b>Extrapolated error (claim not amended)</b>  <b>- £6,543.88</b></p>

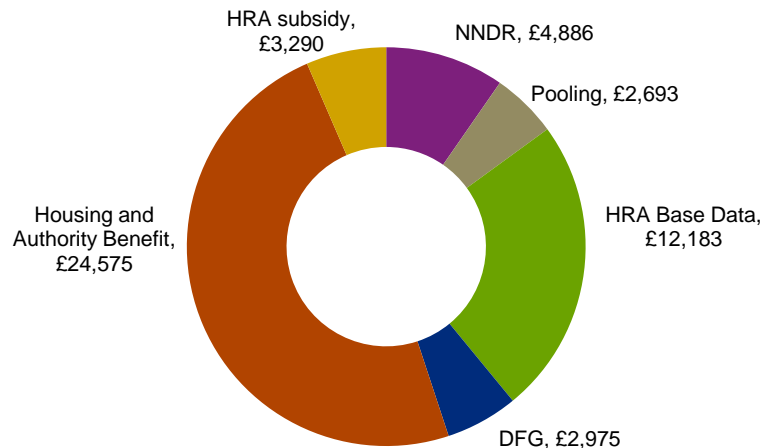
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
3	<p><b>HRA subsidy and HRA base data return</b></p> <ul style="list-style-type: none"> <li>■ A minor adjustment was required to the cells which disclose the number of HRA units held by the Authority.</li> <li>■ The Authority highlighted a property, through the course of its data cleansing exercise, which should not be part of the HRA. Initially the Authority had removed this property when completing the HRA subsidy and HRA base data return. However, in order to remove a property from the HRA, approval is required from the Secretary of State. At the time of the certification, the Authority did not have this approval. As such, the claim was amended to reflect this.</li> <li>■ We have raised a recommendation at page 7.</li> </ul>	<p><b>No monetary effect</b></p>

Our overall fee for the certification of grants and returns increased in the year.

This is due to additional work required on the HRA base data return.

### Breakdown of certification fees 2010/11



### Breakdown of fee by grant/return

	2010/11 (£)	2009/10 (£)
National Non Domestic Rates Return	4,886	4,640
Pooling of Housing Capital Receipts	2,693	3,935
HRA Base Data Return	12,183	8,540
Disabled Facilities Grant	2,975	3,850
Housing and Authority Tax Benefit Scheme	24,575	23,580
HRA subsidy	3,290	2,400
<b>Total fee</b>	<b>50,602</b>	<b>46,945</b>

The fee charged was higher than the fee for the prior year. The main reason for this was:

- additional work being required to address errors in the HRA base data return. Our initial testing highlighted errors in the re-categorisation of units in the year. In order to state that the return was fairly stated, an additional sample was required. The Authority agreed to use their in house surveyors to verify the remaining re-categorisation in the year. This additional exercise highlighted further errors. This additional testing confirmed the requirement of a qualification to our audit certificate.

It should be noted that the housing and Authority tax benefit grant claim accounts for almost half of the grant fee. This fee is broadly in line with prior years. The grant claim was qualified in the year following the results of our testing.

We recommend the Authority takes the following steps which should help minimise certification fees in the future. The recommendations are included on page 7 and 8.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

### Priority rating for recommendations

- |  |   |   |
|--|---|---|
| <p><b>1</b> 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><b>2</b> 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><b>3</b> 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
<b>HRA base data return</b>						
1	<p><b>Property Data</b></p> <p>Our sample testing of the HRA base data archetypes highlighted that 15 units were incorrectly re-categorised. Our testing relied on the Authority's in-house surveyors and other third party supporting data.</p>	<p>Housing base data return is incorrect and will continue to be qualified.</p>	<p>The HRA base data return is compiled using the housing management data. The Authority appointed a Data Officer in the year who was charged with verifying and cleansing the housing management data.</p> <p>Our testing highlighted that 15 of the 29 re-categorisations in the year were incorrect.</p> <p>The Authority should highlight all units which are at a high risk of being incorrectly categorised.</p> <p>The Authority should verify the underlying data behind these units through its in-house surveyors and make the necessary adjustments to the housing management data to reflect the new findings. The Authority should conduct this exercise on an annual basis to ensure the entire HRA is reviewed within a reasonable time scale.</p>	<p><b>1</b></p>		



Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<b>HRA base data return and HRA subsidy</b>					
<p><b>2</b></p>	<p><b>Transfers out of the HRA</b></p> <p>Through the course of the Authority's clean up exercise of the housing management records, it identified a property which was classified as part of the HRA but should be excluded from this year's claim.</p> <p>However, the Certification Instructions states that <i>'the Secretary of State must consent to transfers of dwellings from the HRA'</i>.</p> <p>The Authority did not have consent at the time of the grant certification.</p>	<p>Units cannot be transferred out of the HRA without the consent of the Secretary of State as required by the certification instructions.</p> <p>Failure to seek consent may lead to qualified certifications in the future.</p>	<p>The Authority should seek formal consent from the Secretary of State to approve the removal of the property from the HRA.</p> <p style="text-align: center;"><b>1</b></p>		

We made 4 recommendations in our 2009/10 Certification of Grants and Returns report. 3 of these have been addressed.

Where recommendations have not yet been implemented fully, we have detailed their current status below.

Prior year recommendation	Priority	Status as at January 2012	Management comments
<b>HRA Base Data Return</b>			
<p><b>1</b> In line with AC requirements, the Authority should undertake a comprehensive review of its housing stock records to ensure that records are held for all units. The stock records should clearly identify the classification of each property, e.g. small terraced house versus large terraced/ semi-detached house and low-rise versus medium-rise flat. Once stock records have been obtained, the Authority should review, on a unit by unit basis, the classifications currently reported against those identified on the stock records. Where differences are identified, the Authority should amend their high-level records to ensure they reflect the correct classifications.</p>	<p><b>1</b></p>	<p>The Authority did not carry out a comprehensive stock condition review.</p> <p>The Authority employed a Data Officer in the year to cleanse the housing management data which is used to complete the HRA base data return. This exercise highlighted that 29 units were incorrectly classified, and re-categorised these units into the appropriate archetypes. The Authority relied on existing housing management and survey data.</p> <p>Our testing highlighted that 15 of these units were incorrectly re-categorised.</p> <p>We have raised a further recommendation on page 7.</p>	



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