

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

30 SEPTEMBER 2008

REPORT OF THE DIRECTOR OF FINANCE

GRANT CLAIMS AND RETURNS: AUDIT COMMISSION REPORT

1. EXECUTIVE SUMMARY

1.1 This report provides Members with details of issues raised in the Audit Commission report on grant claims relating to the 2006/07 financial year. It also explains how I propose to address the issues raised in the Audit Commission report.

2. BACKGROUND

2.1 The Authority receives approximately 25 annually recurring grants, [although this figure is expected to fall from 2007/08] which require claim forms to be submitted and audited. In addition there are also a number of 'one off' claims. These tend to be linked to specific projects often, but not exclusively, within the Regeneration Department. The Authority also acts as the 'Accountable Body' for a number of grants which it passes on to third party organisations. A separate annual audit certificate has to be produced by the Audit Commission for each claim and returned to the relevant grant paying body. The Audit Commission undertakes this grant audit role alongside its other duties as external auditor to the Authority.

2.2 The audit process requires grant claim compilers to provide detailed working papers analysing and justifying any claimed expenditure. These must satisfy the auditors that any expenditure is eligible in accordance with grant conditions. The Audit Commission produces a 'Certification Instruction' for each claim, which lists a number of tests the Commission must undertake before certifying each claim.

2.3 The Audit Commission produces an annual report on grant claim performance and issues. The latest report attached as Appendix 1, details issues arising from the grant claims relating mainly to the 2006/07 financial year. These were audited during the 2007/08 financial year; the main issues are summarised later in this report.

2.4 The Audit Commission charges the Authority on an hourly basis for grant claim work; currently at a rate of £110 per hour. The estimated cost under the existing arrangements during 2007/08 was £145,000. These costs are in addition to charges made by the Audit Commission on non-grant work for the Authority.

2.5 New grant claim auditing arrangements have been applied from April 2007. The Audit Commission, no longer audits claims with a value below £100,000 (previously £50,000), and will undertake limited testing on claims between £100,001 and £500,000 (previously £50,001 and £100,000). For claims over £500,000 audit work will be based upon a risk assessment undertaken by the Commission. Due to these changes the cost of grant certification is estimated to reduce in 2007/08. This cost will partly be affected by the quality of claims and supporting working papers submitted.

3. AUDIT COMMISSION REPORT FINDINGS

3.1 The Audit Commission report on the 2006/07 grants (audited during 2007/08) acknowledges that the Authority continues to improve its grant claim preparation and co-ordination processes. Some of the improvements are highlighted below:

- It was commented that the quality of working paper files and the audit trail to prime documents had generally been maintained to a good standard. Maintaining good quality working papers, helps minimise the need for detailed audit testing, which in-turn reduces the costs incurred in audit charges.
- The proportion of claims amended fell from 32% in 2005/06 to 22% in 2006/07. This fall is testament to the fact that the Authority has sought to minimise amendments to claims through more robust pre-submission checks.
- The proportion of qualified claims fell from 32% in 2005/06 to 25% in 2006/07, with qualified expenditure falling from £979,000 to £380,000. This represents a fall of around 60% in the value of qualified claims. Qualification letters are produced where the auditor wishes to raise an issue with the paying body. These do not necessarily imply that there is an error with any claim.
- The Council has developed good grant claim co-ordination arrangements which are supported by a Grant Manual. It was commented that the roles and responsibilities of the Grant Claims Co-ordinator outlined in the manual represent good practice.
- The Audit Commission felt that the Council had been proactive in developing good management arrangements for the submission of grant claims by establishing a number of procedures such as the claims register, grants manual and training sessions.

3.2 A number of concerns however were highlighted in the Audit Commission report. These are as follows:

- The overall number of amendments and qualifications to claims still needs to be reduced further.
- The Grants Manual was not updated for changes in the certification of claim value thresholds.
- The Grants register did not contain all auditable claims.
- Further work is required to improve the control environments under which claims are compiled and verified before submission. Improvements in this area will produce benefits resulting in fewer errors and reduced audit cost.
- 17 claims were submitted late for 2006/07 compared with 12 for 2005/06.
- The most significant issues in the year arose on:
 - Housing and Council Tax Benefit
 - General Sure Start
 - Childrens Fund
 - ERDF Tendering requirements
 - Connexions

- 3.3 All specific points raised in the year relevant to individual claims are listed in the appendices in the Audit Commission report. These are items consolidated from the various audit reports returned to the paying bodies as part of the audit process.
- 3.4 The Audit Commission has made six recommendations of key actions in its report. These are:
- i) The Grant Claim Co-ordinator should review the errors (as listed in Appendix 3 of the Audit Report) and be aware of any further issues that could be identified from improving the quality assurance process on claims before they are sent to the Audit Commission.
 - ii) Grant Claim compilers should review Certificate instructions and ensure that the claim and working papers provide the information which will satisfy grant claim conditions and meet audit requirements. They should ensure that transactions included in grant claims are properly authorised as eligible expenditure for grant.
 - iii) The Council should liaise with the Government Office to ascertain whether the current tendering arrangements for projects funded by ERDF meet EU Procurement requirements.
 - iv) The Grant Claim Co-ordinator should monitor the submission of grant claims, ensuring their submission allows sufficient time for review by the Co-ordinator. Grant paying bodies should also be informed when claims are expected to miss the submission deadline, an estimate of the submission date should be provided; and where extensions have been granted, that the extension gives the auditor 3 months from that date to certify the claim.
 - v) The Grant Claims Co-ordinator should identify those factors in the control environment. (Appendix 2 of the Audit Commission Report) that are within management control and provide guidance to compilers of claims which will address such issues.
 - vi) The Grant Claims Co-ordinator should ensure that the claims and returns register is kept up to date and should up date the Grants Manual for changes made to the Audit Commission certification arrangements where appropriate.

4 RESPONSE TO THE REPORT

- 4.1 The Audit Commission report is based upon grant claim audits relating to the 2006/07 financial year. The Authority has already brought in measures to tackle most of the issues raised in the Audit Commission report. A number of other measures will also be undertaken to address the issues raised. The way the Authority intends to deal with the recommendations of the Audit Commission is explained below.
- 4.2 The recommendations within the Audit Commission report have been accepted and will be implemented with immediate effect.
- 4.3 Enhancements to the Grant claims database have been made by ensuring regular review and communication takes place between The Audit Commission, Claim Compilers and the Grant Claims Co-ordinator.
- 4.4 The grant co-ordination procedure manual has been comprehensively updated to include a number of new practices to Claim Compilation.
- 4.5 A new Claim Checklist procedure has been developed to ensure compilers have completed the claim in line with the Certificate instruction, thus minimising audit queries.
- 4.6 More training has been scheduled to help update staff on the key developments for Grant completion. The Audit Commission has agreed to provide a representative to take part in this training.
- 4.7 Greater lines of communication have now been developed between the Finance Department and the Audit Commission with the Grant Claims Co-ordinator being the first point of contact for any grant queries; liaising on a regular basis with the Principal Auditor.
- 4.8 The Council has had confirmation from the Government Office North West that the current tendering arrangements for ERDF funded schemes do meet EU Procurement requirements.
- 4.9 Internal Audit reviews the control environment of the systems which produce the information that feeds into various grant claims. An 'Assurance Statement' of an appropriate control environment is provided by Internal Audit, backing up the working papers that support the claim. Internal Audit is currently in discussion with the Audit Commission, regarding improvements to this review process which will further strengthen the control environment.
- 4.10 These actions will help to improve the control environment and reduce the number of amendments and qualifications to future claims.
- 4.11 Although more claims were submitted later to audit in 2006/07 compared to 2005/06, the majority of these were only a few days late. In many of these cases, the claim was actually completed on time; however, more time was spent on pre-submission checks to avoid potentially costly and lengthy delays post submission.

4.12 Major Qualifications to claims.

- **Housing Benefits:** Due to the nature and scale of the regulations arising from the Department for Work and Pensions and the value being in excess of £120 million, this claim is extremely complex. The sheer complexity of the claim means that issues are always likely to arise in this area, although all practicable steps are taken to minimise these.
- **General Sure Start:** This Claim has involved numerous people in the completion and monitoring process. The change of staff has caused a degree of disruption to the claim procedure. During 2006/07 a review was carried out into capital expenditure and financing for previous years which resulted in some inconsistencies being identified. Since this time, new procedures have been introduced to co-ordinate the expenditure and financing of the grant. Such procedures include regular meetings with parties involved and Finance Officers being designated positions in the Sure Start Team and the Capital Programme.
- **Children's Fund.** During the time of the Audit, there was a change in personnel resulting in a time-lag in training for grant procedures. Since then, audit spot-checks/ visits to partners have been implemented to enable a review of their financial systems/records. Regular visits also take place to discuss various financial issues such as value for money, ensuring they are staying within their spending targets and checking that such targets are being met.
- **ERDF – Tendering.** There were a total of nine qualification letters issued. Four of these related to tendering within the ERDF schemes. The Audit Commission view was that tendering procedures had not been properly followed. The Council had a different opinion to the Audit Commission on this issue and sought approval from The Government Office North West, (GONW is the grant paying body). The GONW confirmed they were happy with the procedures used by the Council; and the fact that the Grants were paid in full is acknowledgement of this.
- **Connexions –** The claim faced significant delay as the Council was reliant on Greater Merseyside Connexions Partnership to provide their audited accounts, which forms the basis of the return. This information was received late due to a disagreement with their auditors; such occurrences are outside the Councils control.

4.13 **Other Claims.** A number of relatively minor issues are detailed within Appendix 1 of the Audit Commission report. Many of the issues raised had no impact on grant entitlement. The grant co-ordination team will review the various comments and take appropriate action for future claims.

5. FINANCIAL AND STAFFING IMPLICATIONS

- 5.1 There are no direct financial consequences arising from this report. Robust and improved grant claim management will however bring improved cashflow benefits to the Authority. There may also be a reduction in audit fees if a control environment can be established which is fully in line with Audit Commission guidance.

6. EQUAL OPPORTUNITIES IMPLICATIONS

- 6.1 There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

- 7.1 There are none arising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

- 8.1 There are no specific implications arising from this report.

9. LOCAL MEMBERS SUPPORT IMPLICATIONS

- 9.1 There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

- 10.1 There are none arising directly from this report.

11. PLANNING IMPLICATIONS

- 11.1 There are none arising from this report.

12. BACKGROUND PAPERS

- 12.1 Grant Claims and Returns – Audit Commission – May 2007

13. RECOMMENDATION

- 13.1 That this report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE