

Grant Claims and Returns

Wirral MBC

Audit 2005/2006

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Introduction

- 1 Funding of the Council's net expenditure comes from three main sources - government grants, council tax and business rates. Grant claims and returns are required by a number of Government bodies to demonstrate the Council's entitlement to funding and subsidies. There are a variety of different funding requirements ranging from very complicated schemes involving millions of pounds, such as Housing Benefit, to simple reimbursements of salaries and expenses.
- 2 The Council is responsible for the proper and accurate preparation of claims and returns and for the establishment of effective administrative and financial systems, including proper arrangements to prevent and detect fraud. The Council must exercise the necessary degree of supervision and review of claims before completion of claim certificates and needs to ensure that it is able to comply with the terms and conditions laid down by grant paying departments. Historically at Wirral, grant claims work generates a significant number of adjustments and qualifications.
- 3 The certification of grant claims and returns forms a significant part of the Audit Commission's work at Wirral and during 2005/06 we certified 44 claims with a combined value of £191m (46 claims totalling £229m in 2004/05). This report summarises the findings from our certification work on grant claims and returns in 2005/06. The report details the issues included in our qualification letters to grant paying departments and comments on the progress made by the Council in addressing the weaknesses highlighted in our previous reports.

Background

- 4 Given the number, value and increasing significance of grant claims and returns to the Council, it is essential that their compilation and submission, both to grant paying departments and for auditor certification, is effectively managed and coordinated.
- 5 Following consultation with grant-paying bodies the Audit Commission issue Certification Instructions (CIs) to auditors which set out parameters and testing requirements for our certification work. Throughout the year we passed copies of CIs to the Council's Grant Claims Co-ordinators so that they could be made available to Council officers compiling claims thereby ensuring awareness of audit requirements.

Audit approach

- 6 Our approach at Wirral followed the national Audit Commission policy that seeks to minimise, where possible, the cost of the grant claim certification regime. The extent to which we are able to reduce the level of testing, and in turn its cost depends on the strength of the control environment in which individual claims are prepared.
- 7 We determined the level of reliance we were able to place on the strength of the control environment to assess the scope of audit coverage required on individual returns and tailored our testing strategy accordingly. During the course of our assessment of the control environment we discussed our findings with grant claim preparers, highlighting where there was scope for improvement.

Main conclusions

The audit programme

- 8 We have now substantially completed our 2005/06 grant claims programme. The main conclusion is that there continues to be improvements in grant claim preparation. However there remains scope for further improvement in claim compilation, quality assurance and timeliness of submission. There are some examples of good working paper files that are systematic and provide a robust audit trail. But while there has been an improvement in submission arrangement with fewer late submissions there are still a high number of amendments and qualifications.
- 9 The 2005/06 grant claims and returns certification programme is summarised in Table 1 below. Around 32 per cent of claims were either amended, qualified or both this year, compared with 35 per cent in 2004/05. The table indicates that:
 - the number of qualification letters has fallen in number and as a proportion of the number of claims compared to last year. The amount of qualified expenditure has increased mainly due to concerns over the eligibility of expenditure recorded on the Childcare Grant, Wirral Waterfront SRB and Housing Benefit claim which is covered in more detail below; and
 - the number of amended claims has increased but the overall impact on subsidy is very small. The large amendment in 2004/05 was mainly due to a significant, but one off amendment to the housing subsidy claim.

Table 1 Summary of audited grant claims and returns

	2005/06	2004/05
Total number of claims and returns	44	46
Total value	£191,031,000	£229,336,000

6 Grant Claims and Returns

	2005/06	2004/05
Number of claims amended	14	12
Proportion of claims with amendments	32%	26%
Value of adjustments to claims (net)	-£228,069	-£1,083,589
Number of qualification letters issued.	14	15
Proportion of claims with qualifications	32%	33%
Value of expenditure qualified	£978,623	£123,369

Source: Audit Commission statistics

10 Appendix 1 provides a summary of all claims and returns certified in 2005/06 and details the amendment and qualification issues. Significant matters identified during the year included the following.

- Housing and council tax benefit scheme - the claim was amended by only £4,882 but our certificate included a qualification on the accuracy of the information used to compile the claim. We were unable to confirm that all of the cells on the claim were fairly stated. The findings from our sample testing were extrapolated with the result that there was a risk that the claim was potentially overstated by £351,265.
- Connexions - the Council is the accountable body for expenditure incurred by the Greater Merseyside Connexions Partnership totalling £18m. It follows that the Council as the lead body must have arrangements in place to monitor and control the ways in which grant is used by the Partnership. However the return submitted to us by the Council included ineligible expenditure in error. Overall we increased the total amount of expenditure recorded on the return and the grant entitlement by £228,996.
- Sure Start Ferries - Certification of the 2004/05 claim was completed in July 2006 due to a significant delay in submitting the claim. Our qualification letter referred to an amount over claimed in previous years of £356,173 that had not been repaid by the Council. The balance due to Sure Start has been reduced by capital spend in 2004/05 of £43,706 leaving a current amount over claimed of £312,467. We understand that the Council has liaised with Sure Start with a view to repay this amount and we have been informed that the balance over claimed will be offset against expenditure in 2006/07. The Sure Start Ferries claim for 2005/06 has already been certified without amendment therefore the Council will need to ensure that the balance has been offset against eligible expenditure in 2006/07.

- Disabled facilities grant - the Council had not clearly analysed total expenditure eligible for DFG before calculating the exchequer contribution and completing the claim. It was difficult for us to identify the DFG payments made by the Council in 2005/06 to support the claim for exchequer contribution. However the Council did demonstrate that the total amount of DFG expenditure incurred by the Council in 2005/06 exceeded the total grant allocation of £750,000. While the claim was not overstated the range of transactions posted to a single accounting code made the audit trail overly complex and testing of eligible expenditure was time consuming.

Timeliness of claim submission

- 11 Progress has been made in reducing the number of late claims, overall 24 per cent of 2005/06 claims received were submitted late, compared with 35 per cent in 2004/05, 40 per cent in 2003/04, and 60 per cent in 2002/03. Appendix 1 provides details of each of the late claims submitted, the most significant of which was the two month delay in submitting the Discretionary Housing Benefits claim. The appendix also shows that four claims were submitted with delays of less than five days. When we excluded claims with minor delays from our calculation, the overall number of late claims fell to 15 per cent. This represents an improvement over previous years and continues the desirable downward trend.

Control environment

- 12 The control environment for most of the claims prepared by the Council was assessed as not being sufficiently strong to enable us to reduce our level of testing. Of the 44 claims submitted for certification we relied on the control environment and thereby minimised testing for only ten claims. Appendix 2 summarises the key weaknesses in control environment for the preparation and submission of claims and appendix 3 identifies those claims where we relied on the control environment.

Quality Assurance

- 13 The Council's arrangements for managing and quality assuring grant claims submitted for certification is based on good principles outlined in the Grant Co-Ordination Manual. While many grant claims and claim files are produced satisfactorily for the Council, there are a number of common problems, which occur. Appendix 4 provides details of all of the errors arising from our review. The Council must ensure that a full QA process is followed for each claim to reduce the number of administrative errors and ensure that the overall control environment is strengthened.

The way forward

- 14 The summary findings together with recommendations detailed in the action plan attached at Appendix 5 are provided to support the Council in addressing the issues identified during our certification work. Key actions required for the Council to build on the progress that has already been made include:
- strengthen the control environment and provide clear evidence demonstrating the operation of controls;
 - enhance grant claim co-ordination to improve quality assurance processes; share good practice across departments; and ensure that working papers provide evidence to support key entries in the claim;
 - target claims that are known to have issues year on year and prepare an action plan to address the weaknesses identified; and
 - ensure that control environment self assessments are completed for all schemes including projects where the Council is the accountable body but is not directly carrying out the work.

Appendix 1 – Outcome of the 2005/06 Grant Claims Programme

1 The table shows the results in CI number order.

C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
BEN01	Housing and council tax benefits scheme	31 May 2006	30 June 2006	30	Amended and Qualified	(A) 4,882 (QE) 351,265	<p>1. Entitlement per case on the subsidy package audit trail does not always equal the aggregate annual entitlement calculated from details held on the system. We found that in 206 cases (48 per cent) out of a sample of 444 cases there were differences between the year-end case totals and the amounts recorded on the system.</p> <p>2. Total payments could not be reconciled for Expenditure recorded by the Subsidy Package to the total amounts on FIS. The differences were Rent Rebates £31,906, Rent Allowances £-195,215 and CTB £39,851.</p> <p>3. Benefits paid by the Housing Benefits system were not reconciled to the amounts posted to FIS from Sx3 during the year. The differences were rent allowances £428 and CTB £ -33,525.</p> <p>4. Overpaid Rent Allowances due to 'LA error' were misclassified as 'eligible' error as in previous years.</p> <p>5. Rent Allowance and CTB Extended Payment Periods were not always granted in accordance with the regulations.</p> <p>6. The Council awarded backdated benefits that were not in accordance with the regulations as in previous years.</p>

10 Grant Claims and Returns | Appendix 1 – Outcome of the 2005/06 Grant Claims Programme

C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
BEN01	Housing and council tax benefits scheme (continued)						7. We were unable to complete testing of WIBS due to un-reconcilable differences in the totals on the claim and lists of individual cases from which we could pick a sample The Council is currently taking action to correct the long standing weaknesses in its Housing Benefit system by implementing the new Academy system.
CFB06	Housing Capital Receipts	14 July 2006	18 July 2006	4	Amended and Qualified	(A) -398	Interest on the late payment of capital receipts to the DCLG was calculated at an incorrect rate of 4.51 per cent instead of 5.5 per cent. The return stated the amount of interest payment made of £1,849.56 and not the interest due at the correct rate of interest.
EDU02	LSC funding	30 September 2006	29 September 2006	0	No	0	N/A
EDU33	Education special grants	31 July 2006	1 August 2006	1	No	0	N/A
EDU35	Connexions Lead Bodies	Before 30 September 2006	16 October 2006	16	Amended	(A) 228,996	The claim included both Connexions eligible expenditure and ineligible expenditure on the same line in error.
EUR01	St James	30 September 2006	21 June 2006	0	No	0	N/A
EUR01	Wirral Multi cultural centre	30 September 2006	13 September 2006	0	No	0	N/A
EUR01	Wirral International Business Pk (Oracle)	30 September 2006	13 September 2006	0	No	0	N/A

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C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
EUR01	Greenfields Phase 3	30 September 2006	13 September 2006	0	No	0	N/A
EUR01	Wirral Waterfront ERDF Core Management	30 September 2006	29-September 2006	0	Amended	(A) -3,756	Ineligible expenditure was included in the original claim.
EUR01	Acquisition and Remediation of MOD Land	30 September 2006	13 September 2006	0	No	0	N/A
EUR01	Ferry View Business Park WIBP	30 September 2006	14 September 2006	0	No	0	N/A
EUR01	Birkenhead Park Restoration	30 September 2006	25 September 2006	0	No	0	N/A
EUR01	Kings Gap Gateway	30 September 2006	25 September 2006	0			Audit still in progress.
EUR01	Facilitating Finance	30 September 2006	28 September 2006	0	No	0	N/A
EUR01	Maritime Business Park	30 September 2006	29 September 2006	0	No	0	N/A
EUR01	Wirral enterprise programme	30 September 2006	29 September 2006	0	No	0	N/A
EUR01	Wirral Int'l Business Park Ph 1D Commercial/Thermal Road link	30 September 2006	29 September 2006	0	No	0	N/A
EUR01	Woodside business park phase 3	30 September 2006	29 September 2006	0	Qualified	(QE) 15,916	Expenditure exceeded approval.

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C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
EUR01	Gateway Business Park	30 September 2006	29 September 2006	0	No	0	N/A
EUR01	Supporting Art Culture and Tourism	30 September 2006	19 October 2006	19	Amended	(A) 3,017	The allocation of 'in-kind ' employee costs to the project was overstated.
EUR01	The Lauries	30 September 2006	29 September 2006	0	Qualified	0	The entry on the claim form for grant entitlement was incorrectly shown.
EUR01	The Lauries - Final	31 October 2006	29 November 2006	29	Qualified	0	The entry on the claim form for grant entitlement was incorrectly shown.
EYC02	Childcare grant	30 July 2006	6 September 2006	38	Qualified	(QE) 216,794	The claim included expenditure of £180,000 that was spent but not claimed back by Hope University- the previous accountable body. Therefore the claim did not agree to FIS and the DfES had not confirmed whether the expenditure was eligible for grant. A payment of £36,794 included in the claim did not comply with Wirral's standing orders because only one quote was obtained before the order was placed.
EYC06	On track	30 June 2006	28 June 2006	0	No	0	N/A
EYC08	Sure Start Ferries	30 July 2006	18 July 2006	0	No	0	N/A
EYC08	Sure Start B'head North	30 July06	18 July 2006	0	No	0	N/A
HC08	Mental Health Grant	2 October 2006	29 September 2006	0	No	0	N/A

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C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
HOU01	Housing Subsidy	29 September 2006	29 September 2006	0	Amended and Qualified	0	The qualification letter for the housing subsidy claim reflects issues from the BEN01 claim affecting HRA Rent Rebate Expenditure. Entitlement per case on the subsidy package audit trails does not always equal the aggregate annual entitlement calculated from details held on the system. In addition amendments were made which had no impact on grant entitlement.
HOU11	Discretionary housing payments	31 May 2006	4 August 2006	65	Amended	0	Amendments were made to fields on the claim but there was no impact on grant entitlement.
HOU21	Disabled Facilities Grant	30 September 2006	25 September 2006	0	Qualified	0	The exchequer contribution was calculated using the total amount of net expenditure recorded in the DFG cost centre in the financial ledger. The Council had not completed an analysis of the total amount of expenditure eligible for DFG before calculating the exchequer contribution and completing the claim.
LA01	NNDR	30 June 2006	30 June 2006	0	No	0	N/A
PEN05	Teachers Pensions	30 June 2006	3 July 2006	3	Amended and Qualified	(A) -3,080	Additional contributions paid in respect of teachers who did not appear on the TP list were deducted. Four out of the five schools who use other payroll providers produce information which does not reconcile with the Teachers pension return. The difference was £2,156 in 2005/06.
RG01	Wirral waterfront SRB	30 September 2006	13 September 2006	0	Amended and Qualified	(QE) 167,563	Actual expenditure on the Lauries Project exceeded the approval by £167,563 and we notified to the North West Development Agency of the situation. The overspend occurred because SRB funds were used to fund expenditure on the Project in advance of ERDF funding. The balance will be reclaimed in 2006/07.

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C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
RG15	Acquisition and Remediation of MOD Land	None	28 September 2006	0	No	0	N/A
RG34	Mersey Waterfront Regional Park	30 June 2006	3 July 2006	3	Amended and Qualified	(QE) 82,766	Capital and revenue expenditure exceeded the latest NWDA approved expenditure total by £82,766. Assets acquired by the Historic Warships Trust totalling £65,000 as part of a MWRP grant funded project were subject to liquidation. Officers were unable to confirm the location or the existence of the assets purchased by the Trust using grant funding. In addition the Council has been unable to reclaim the grant paid to the Trust from the liquidator. There is a risk that the Council may repay all or part of the grant back to the NWDA.
RG34	Church Road Acquisitions	30 June 2006	23 June 2006	0	Amended and Qualified	(QE) 30,000	The 2005/06 claim included payments totalling £30,000 defrayed in 2003/04 and included on the 2003/04 claim which should not have been included on the 2005/06 claim.
SOC08	Information management grant	30 September 2006	29 September 2006	0	No	0	N/A
SOC13	Teenage Pregnancy	30 September 2006	28 June 2006	0	Amended	(A) -1,250	Grant received on account was understated on the claim.
SOC31	Choices protects grant	30 September 2006	25 September 2006	0	Amended	0	Eligible expenditure amended but this did not affect grant entitlement.
SOC31	Adoption grant	30 September 2006	25 September 2006	0	No	0	N/A

Grant Claims and Returns | Appendix 1 – Outcome of the 2005/06 Grant Claims Programme **15**

C.I.	Claim Description	Final date for LA Completion	Actual date submitted for audit	Days late	Claim amended and/or qualified	Amendment/ Qualified Expenditure	Reason for Qualification
	Pre 2005/06						
EUR01	Laird foundation	30 November 2003	30 September 2005	670	Qualified	(QE) 46,085	There was insufficient evidence to support £46,085 of Income from the Public Sector (excluding LA) out of a total of £552,463. The Government Office has requested that the claim should be re-submitted by the Council but this remains outstanding.
EUR01	Hamilton Quarter	30 September 2005	16 December 2005	78	Amended	(A) -342	Expenditure eligible for grant was incorrectly recorded as £662,408 instead of £979,533. This was an arithmetic error but it did not have a significant effect on the ERDF grant entitlement.
EYC08	Sure Start Ferries	30 July 2005	30 June 2006	335	Qualified	(QE) 84,150	The return included expenditure £84,150 from Neighbourhood Nursery Initiative (NNI) which was not included in the Sure Start Delivery Plan and we highlighted the risk of a duplicate claim.

Appendix 2 – Reasons for not relying on the Control Environment

Table 2

This table links our reasons for not relying on the control environment with the individual claims.

Reason	CI	Claim
Unavoidable: New Claim	EDU35	Connexions Partnerships
Unavoidable: New Claim	EYC06	Children's Fund
Unavoidable: First Claim	EUR01	Supporting Art and Culture
Unavoidable: New System	LA01	NNDR
Cumulative Audit Knowledge and Experience - qualification letters issued in 2004/05	BEN01	Housing and Council Tax Benefit Subsidy
	EDU02	Adult and Community Learning
	EUR01	St James
	EYC08	Sure Start Ferries
	EYC08	Sure Start Birkenhead
	EYC08	Sure Start General
	HOU01	HRA Subsidy
	HOU11	Discretionary Housing Payments
	PEN05	Teachers Pension Return
	SOC08	Improving Information Management Capital Grant
	RG34	Single Program: Mersey Waterfront Park
	EUR01	The Lauries
Weaknesses in the audit trail and working papers	CFB06	Pooling of Housing Capital Receipts
	RG34	Church Road Acquisitions
	HOU21	Disabled Facilities
Risks relating to private sector funding and bank rolling	RG01	SRB: Wirral Waterfront
Risks relating to the funding of projects	SOC31	Children's Services Grants: Choices Protect
	SOC32	Children's Services Grants: Adoption

Source: Audit commission statistics

Appendix 3 – Claims where we relied on the Control Environment in 2005/06

- EDU33 - Education Special Grants.
- EUR01 - ERDF: Facilitating Finance.
- EUR01 - ERDF: Wirral Int'l Business Park.
- EUR01 - ERDF: Greenfields.
- EUR01 - ERDF: Wirral Multi Cultural Centre.
- EUR01 - ERDF: Wirral Waterfront Core Management Services.
- EUR01 - ERDF: The Lauries.
- EUR01 - ERDF: Oracle Business Park Ph 1.
- HC08 - Mental Health Grant.
- SOC13 - Teenage Pregnancy.

Appendix 4 – Analysis of Issues Arising

- 1 The purpose of this appendix is to highlight the areas where minor administration errors were made. The following issues arose during the course of the audit that required either resolution before the claim could be certified or led to an amendment or qualification.

Table 3 Feedback on the areas where the control environment could be strengthened

Issue
Arithmetic errors
Cell entries incorrectly calculated.
Cell entries did not agree to the total of supporting schedules.
Amounts in the wrong cell.
Cell entry includes expenditure from a previous financial year.
Required schedules were over/understated.
Interim payment understated by amounts received after 31 March 2006.
Incomplete working papers
A poor audit trail that required explanation from its compiler.
Misclassification of payments between cells.
Manually amended figure on claim was unclear.
Supporting evidence contradicts an entry on the claim.
Supporting evidence is insufficient to demonstrate control over the prevention of duplication of the claim.
Supporting evidence is insufficient to support entry on the claim.
Contributions from public sector incomplete.
Approval errors
Delays in securing approvals from grant paying department.
Grant offer on the claim has been superseded.
Department approvals were understated.
Failure to comply with claim requirements
Claim submitted for audit is a photocopy and therefore does not bear an original signature.

Issue
The compiler entered a zero in some cells and omitted the proper entry.
Cell entry correct but the entry was calculated on an incorrect basis.
Cell entries understated.
Eligible expenditure over/understated.
Statement includes expenditure the DfES has not formally confirmed as eligible.
Certificate omits date of delivery plan.
Certificate omits date of the determination.
Inclusion of amounts below the threshold for inclusion.
Benefit awarded contra to the regulations.
There was no evidence that the award of contracts reflected in the claim complied with EU procurement directives or standing orders.
Undisclosed disposal of assets funded from grant.
Grant received to the date of CFO certificate is understated by amounts received after 31 March 2006 (late change to CI).
Reconciliation errors
Lack of reconciliation between the claim and FIS.
Entitlement per case on the Housing Benefit Subsidy Package Audit Trails does not always equal the aggregate annual entitlement calculated from details held on the system.
Claim entries did not agree to the total of supporting schedules.

Appendix 5 – Action Plan

Page no	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Timeliness of Claim Submission						
	<i>R1 Take a more proactive approach to managing grant claims, eg set early deadlines for submission of claim to co-ordination section for checking sufficiently before the deadline for submission.</i>	2	Chief Accountant/ Claim Preparer/ Claim Co-ordinator	Yes	Grant co-ordination to write to grant compilers specifying submission to co-ordination dates.	30 June 2007
Improve Grant Claim Preparation						
	<i>R2 Check that all the expected working papers are provided to support the claim. The claim preparer should provide working paper references to support entries on the claim.</i>	2	Grant complier supported by Grant Co-ordination Team	Yes	Further guidance to be provided to grant compilers via grant co-ordination team.	30 June 2007
	<i>R3 Review the claim and accompanying working papers for completeness ie no missing documents.</i>	2	Grant complier supported by Grant Co-ordination Team	Yes	Grant co-ordination team already undertake checks. However additional timescale arising from recommendation 1 will allow for more in depth investigation.	30 June 2007

Page no	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>Control Environment Issues</i>					
	<i>R4 Prepare a self assessment of the control environment and submit the assessment with the grant claim.</i>	2	Grant Claim Preparer	Yes	Compilers to compile assessment provided via template from co-ordination team.	30 June 2007
	<i>R5 Identify weaknesses in the grant claim control environment and discuss appropriate action with the claim preparer.</i>	2	Grant Claim Preparer and Co-ordinator	Yes	Response from compilers to be assessed by grant co-ordination team.	30 June 2007