

# **WIRRAL COUNCIL**

## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**28 JUNE 2007**

### **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 2005/06 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, 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 an '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 2005/06 financial year. These were audited during the 2006/07 financial year. The main issues in the report are summarised later in this report.
- 2.4 The Audit Commission charges the Authority on an hourly basis for grant claim work. The estimated cost under the existing arrangements during 2006/07 was estimated to be £165,000. 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 will apply from April 2007. The Audit Commission will no longer audit 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 drop in 2007/08 to £145,000.

### **3. AUDIT COMMISSION REPORT FINDINGS**

3.1 The Audit Commission report on the 2005/06 grants (audited during 2006/07) acknowledges that the Authority continues to improve its grant claim preparation and co-ordination processes. Some of the improvements are highlighted below

- Timeliness. The number of claims supported by working papers submitted on time has risen for the fifth time in five years. Seventy six per cent of claims with supporting papers were submitted to audit on time. However adjusting for very minor delays (due mainly to compiling supporting papers to follow submitted claims) this figure rose to 85%. This compares to a figure of only 40% in 2002/03.
- The number of qualification letters has fallen slightly compared to the previous year. 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.
- Although the number of amended claims has risen compared to the previous year, the value in terms of any grant subsidy was minimal. The value of actual adjustments decreased by almost 80% (from £1,083,589 to £228,069).
- The Finance Department Grant Claim Co-Ordination Manual produced to provide advice and examples of best practice to grant compilers is deemed to be based upon good principles. Further work on embedding its principles across the whole range of grant returns is however required.

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

- The overall number of amendments and qualifications to claims needs to be reduced further.
- 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.
- The most significant issues in the year arose on four claims.
  - Housing and Council Tax Benefit
  - Greater Merseyside Connexions
  - Sure Start Ferries
  - Disabled Facilities Grant

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 four recommendations of key actions in its report. These are:

- i) Strengthen the Control Environment - Officers responsible for preparing grant claims should document and assess the control environment surrounding their own claims and provide evidence of operation of the controls.
- ii) Enhance Grant Co-ordination - focus on quality assurance tailored as appropriate to the specifics of individual claims and share good practice
- iii) Targeted Assistance. Target claims with a history of issues and prepare appropriate action plans
- iv) Control Environment Assessments. Ensure these are completed for all claims including where the Authority is acting as accountable body.

#### **4 RESPONSE TO THE REPORT**

4.1 The Audit Commission report is based upon grant claim audits relating to the 2005/06 financial year. The Authority has already brought in measures to tackle some 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. Enhancements to the co-ordination claims database have been made and the grant co-ordination procedure manual will be updated to take account of recommendations from the report. These actions will help to improve the control environment and reduce the number of amendments and qualifications to future claims.

4.3 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 £100 million, this claim is extremely complex. A new Housing Benefit IT system was implemented during 2006-07 and this may result in different issues arising in future years. The sheer complexity of the claim means that issues are always likely to arise in this area – although all practicable steps must be taken to minimize these.
- Greater Merseyside Connexions. This claim is submitted by Greater Merseyside Connexions with Wirral acting as Accountable Body. This was the first year the claim had been submitted. The claim included some bonafide Connexions organisation transactions that were outside the narrower grant eligible area. Discussions have taken place with Connexions, which will result in improvements to future claims.

- Sure Start Ferries. Issues raised relate to previous claims, which by following already agreed actions will be cleared during 2006/07.
  - Disabled Facilities Grant. No change to the amount claimed arose from the audit. However the Commission has commented that the accounting records in support of the claim were difficult to comprehend. A review of these arrangements will take place in time for the next return
- 4.4 Other Claims. A number of relatively minor issues are detailed within Appendix 1 of the Audit Commission report. Some of these relate to timeliness of submitting some long outstanding claims; the inclusion of these on the report effectively meaning that these are now cleared. 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

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