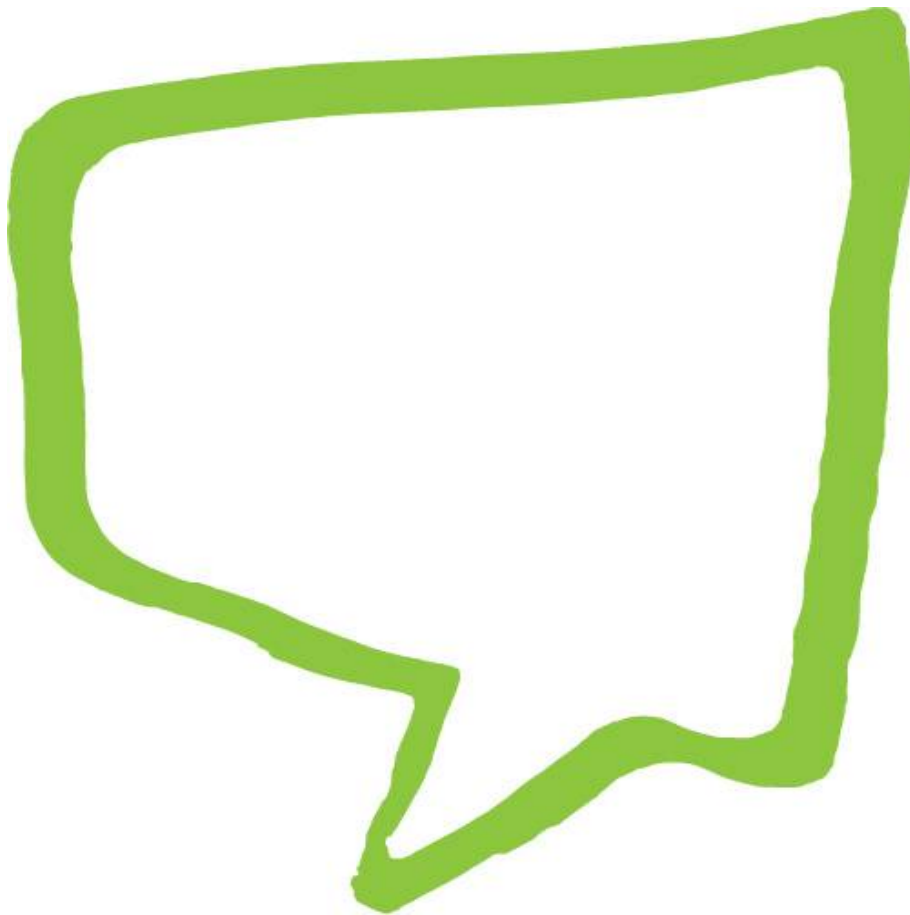


Grant Claims and Returns

Wirral Metropolitan Borough Council

Audit 2007/08

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 Under section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants and subsidies received by the Council. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements, and the auditors act as agents of the Commission in this respect. This is a different relationship to that which exists from the audit work under the Code of Audit Practice. Where appropriate we use our knowledge of other areas of our work to inform our certification of claims, for example our work on documenting and understanding controls performed on expenditure as part of our opinion work will be used in our assessment of the control environment. Similarly, we use our knowledge from our grant certification work to inform relevant areas of other work performed by the Audit Commission.
- 2 Good practice in the preparation of grant claims and returns is set out in the 'Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and auditors in relation to grant claims and returns', as published by the Audit Commission. This document summarises the framework under which the Audit Commission makes certification arrangements and to assist authorities by summarising the extent of their responsibilities.
- 3 The certification regime is outside of our Code of Audit Practice responsibilities and as such the work we do is charged on an hourly basis. In order to minimise the cost of certification, and reduce the potential for error that may result in the delay or reduction of grant payment, all authorities should implement the following actions.
 - Provide comprehensive working papers that fully support the grant claim or return.
 - Demonstrate that there is an effective control environment in place to ensure that the grant claim or return was prepared in accordance with the relevant terms and conditions.
 - Implement a robust quality assurance regime to ensure timely submission of well supported grant claims and returns.
- 4 This report summarises the findings from our certification work on grant claims and returns in 2007/08.

Background

- 5 The grant claims and returns we certify range from highly complex multi-million pound schemes, to more straightforward reimbursements of pre-approved expenditure. In 2007/08, the value of the grant claims and returns we certified at Wirral Council was £258m.
- 6 Certification work is designed to provide assurance to the grant paying body that, for example, a grant claim is fairly stated and in accordance with specified terms and conditions. We reach a 'conclusion' on each grant claim or return and set out any matters to report to the grant paying body within a qualification letter.
- 7 At Wirral, we issue feedback to the Director of Finance on the outcome of the certification for each claim or return. This communicates whether or not reliance was placed on the control environment, whether the claim was amended or qualified and the value of any changes.
- 8 Copies of the communication with the Director of Finance, the certified claim and, if applicable the qualification letter, are also sent to the Grants Claim Coordinator.

Certification approach

- 9 The Audit Commission takes a risk based approach to the certification of grant claims.
- 10 For grant claims and returns below a de minimis amount set by the Commission (currently £100,000), the Commission will not make certification arrangements, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions.
- 11 For grant claims and returns between the de minimis amount and a threshold set by the Commission (currently £500,000), auditors will undertake limited tests to agree entries on the grant claim or return to underlying records, but will not undertake any testing of the eligibility of expenditure or data.
- 12 For claims and returns over £500,000, auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all the tests in the relevant CI and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.
- 13 The control environment is assessed across five themes.
 - Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions.
 - Control arrangements, including internal financial control and internal audit.
 - Quality of authority's supporting working papers.
 - Expertise and relevant knowledge of the preparers, including the adequacy of supervision and review.
 - Cumulative knowledge of the problems associated with compilation of the claim or return.
- 14 Auditors will form a judgement whether or not the control environment as assessed across these themes mitigates the initial degree of risk attached to the claim or return. The initial degree of risk attached to the claim is based upon a number of factors, including the inherent complexity of the scheme and the volume of transactions.
- 15 The value of claims and returns is determined as the lesser of the total approved grant claimable or total eligible expenditure incurred. In the case of projects the value would be the total over the lifetime of the project.

Main conclusions

- 16 The 2007/08 claims and returns programme is now fully complete. A total of 29 claims or returns were certified at a cost of £175k to the Council.
- 17 The 2007/08 grants programme was particularly challenging due to the volume of individual grant funded European Regional Development Fund (ERDF) projects ending part way through the year and to late guidance issued by the grant paying department.

Key facts and figures

- 18 The results of the programme are summarised in Table 1 below.

Table 1 **Key facts and figures**

	2007/08	2006/07
Total number of claims and returns	29	32
Total value of grant claims or returns	£257,614,712	£232,651,621
Number of individual claims above £500,000	22	18
Number of claims where reliance was placed on control environment	15 (68%)	5 (28%)
Number of claims qualified	4 (14%)	8 (25%)
Number of claims amended	19 (66%)	7 (22%)
Number of claims amended which impacted on amount of grant claimed or value of return	8 (28%)	3 (9%)
Number of claims submitted late to auditor	16 (55%)	9 (28%)
Number of claims certified late by auditor	20 (69%)	13 (41%)
Certification fee	£174,664	£192,590
Increase / (decrease) to value of grant claimed arising from certification work	£490,842	(£173,582)

Control environment assessment

- 19 The starting point for our certification work for every grant claim or return whose value is in excess of £500,000 is our assessment of the control environment in place for the preparation and compilation of each claim or return. A strong control environment provides the responsible finance officer with assurance that the grant claim or return they sign is accurate and complies with the relevant terms and conditions. Where we are able to place reliance on the control environment for a specific grant claim or return, we reduce the level of testing that we are required to perform.

Main conclusions

- 20** In 2007/08 we assessed that the control environment could be relied upon for 15 of the 22 claims and returns that exceeded £500,000 submitted for certification (68 per cent). This is an increase compared to 2006/07. The main reasons why we could not place reliance on the control environment were:
- previous record of amendment and/or qualification on the grant claim/return;
 - failure to demonstrate how the grant claim/return was compiled and the quality monitoring processes in place; and
 - the inherent complexity of the grant claim/return.

Qualifications and amendments

- 21** The number of grant claims and returns qualified has reduced from 8 (25 per cent) in 2006/07 to 4 (14 per cent) in 2007/08.
- 22** The reasons for qualification were:
- disagreement on the eligibility of expenditure;
 - communication to the grant paying body that the main developer and contractor on a project had been placed into administration;
 - failure by the Council to supply sufficient supporting documentation for claim entries;
 - system and control weaknesses;
 - validation errors within a claim; and
 - an unresolved reconciliation difference.
- 23** The number of grant claims requiring amendment increased from 7 (22 per cent) in 2006/07 to 19 (66 per cent) in 2007/08, of which 15 related to ERDF claims. The reasons for amendment were:
- arithmetic errors, which we would expect to have been picked up during compilation and the pre-certification quality review;
 - presentational errors, which we would expect to have been picked up during compilation and the pre-certification quality review; and
 - specific terms and conditions not being complied with.
- 24** Of the 19 claims requiring amendment, only eight resulted in a change being made to the amount of grant claimed or value of the return. There was a net increase to the amount of grant claim or value of return of £491k.
- 25** A full list of the reasons for amendments and qualifications is at Appendix 1.

Timeliness of claims and returns submissions

- 26** The timely submission of grant claims and returns for certification is necessary to ensure that this work is appropriately planned and ensuring that national certification deadlines are met. Failure to meet certification deadlines can lead to the suspension of payments or the withholding of grant income.
- 27** In 2007/08, 16 claims (55 per cent) were submitted after the deadline set by the relevant grant paying body. They ranged between 1.5 weeks to 25 weeks late. Twelve of the 16 late claims related to ERDF claims. A full list of late claims is at Appendix 1.
- 28** The majority of claims submitted late were the final claims received for European Regional Development Fund (ERDF) funded projects that ended in 2007/08. As reported in our 2006/07 report, there have been historic problems in the certification arrangements for these claims. In November 2007, certification of these claims was suspended following an embargo imposed whilst DCLG and the Government Offices for the Regions decided which claims still required external auditor certification. Agreement was reached in April 2008 and a new, revised EUR01 Certification Instruction (CI) was issued.
- 29** There were a total of 19 ERDF final claims submitted of which 12 (63 per cent) were submitted late. The certification of these claims was planned to be mainly completed in quarter 4 of 2007/08. However, the late submission of these claims to the auditor meant the certification work was actually required in quarter 1 of 2008/09. Due to statutory NHS regularity work at this time, sufficient resources were unavailable. The result of this, and the high number of amendments required, was that all of the ERDF claims were certified late.

Certification fee

- 30** The planned fees for 2007/08 were £145k, based on the certification of an estimate of 27 claims, assuming an effective control environment, good working papers and robust and effective quality assurance. The total fee charged for the certification of grant claims and returns for 2007/08 was £175k, a decrease of £18k (9 per cent) compared to 2006/07.
- 31** The certification programme was more efficient in spite of the:
- annual uplift of certification fee rate;
 - increase in the number of claims/returns in excess of the £500k threshold;
 - higher complexity of claims, including those when reliance was placed on the control environment; and
 - higher level of errors requiring amendment.
- 32** However, there is still scope to reduce fees through improvement to the control environment, working papers and quality assurance. The anticipated fee for 2008/09 is £137k, reflecting a reduction in the number of claims requiring certification in 2008/09.

Main conclusions

Quality of working papers

- 33** The Statement of Responsibilities outlines the working paper requirements expected by the Council. Briefly, these state that grant claims and returns should be supported by adequate working papers which:
- satisfy the statutory requirement on the Chief Financial Officer to maintain adequate records in relation to grant claims and returns;
 - document the basis of the grant claim or return and the derivation of the information it contains; and
 - are kept in a form which will help the auditor and reduce certification time and, in consequence, the cost of the certification to the Council.
- 34** The claims are generally accompanied with a relatively comprehensive file of working papers and information requests are generally responded to well and in a timely manner by Council officers. However, although not always the case, the audit trail between the claim/return and supporting financial records could be improved with clearer signposting on how data from the general ledger support the entries in the claim/return.

Quality assessment and grant claim coordination

- 35** The Council has developed good grant claim coordination arrangements which are supported by a Grant Manual. The role and responsibilities of the Grant Claims Coordinator outlined in the Manual represent good practice and, if followed, will ensure an efficient planning process and the timely delivery of certified claims/returns to grant paying bodies. The Grants Claim Coordinator responsibilities, as set out in the Grant Manual, are to:
- identify new grant schemes for which the Authority may be eligible;
 - train and promote best practice to grant compilers;
 - identify and monitor claims due for submission, and liaise with the Audit Commission regarding claim submissions;
 - 'chase up' late claims with compilers and Departmental Management;
 - review the cashflow advantages of early claims and adjust submission dates accordingly;
 - liaise with Internal Audit regarding audit coverage to ensure systems of control are adequate and effective;
 - circulate Audit Commission Certification Instructions to grant compilers;
 - conduct pre-audit checks to ensure files contain supporting working papers and are suitable for submission to the Audit Commission; and
 - reduce the cost of grant claim audit charges to the Authority and to protect the financial interests of the Authority.

- 36 As referred to in paragraph 23, a relatively high proportion of claims/returns required amendments to correct errors that we would expect to be identified through the review by the authoriser of the grant claim/return and the Grants Claim Coordinator.
- 37 There were also difficulties in establishing a final list of claims for the year that required certification. This was mainly due to poor communication from the individual departments responsible for compiling the claim/return or the grant paying body with the Grants Claim Coordinator.
- 38 However, it needs to be noted that the 2007/08 grants programme was particularly challenging due to the volume of individual grant funded projects ending part way through the year and to late guidance issued by the grant paying department.

The way forward

- 39 As comment upon previously, during 2007/08, 19 individual ERDF grant funded projects were completed. As the funding for these projects has now stopped, the number of claims to be submitted for certification for 2008/09 will be significantly reduced. Only eight claims are required to be certified in 2008/09 compared to the 29 certified in 2007/08.
- 40 Due to the relatively late completion of the 2007/08 grants programme (the last claim was certified 20 July 2009) the Council has already submitted all of the claims and returns required for 2008/09 and so this report will not inform that programme. However, we have provided feedback to the Council in letters to the Director of Finance throughout the year for each individual claim which should have informed the completion of the 2008/09 claims and returns.
- 41 The issues arising from the 2007/08 grants programme are valid for the grants programme going forward. As we will shortly be completing the 2008/09 grants programme we will present our report to members before March 2010. In the meantime, the recommendations from this report, applying to all claims, are shown below.

Recommendations	
R1	Ensure that the control environment for all claims and returns is robust and that this is adequately demonstrated when the claim or return is submitted for certification.
R2	Ensure all expenditure included in the claims and returns is eligible under the terms and conditions specified by the grant paying body.
R3	Ensure consistently strong internal quality assurance processes and coordination arrangements.
R4	Ensure working papers provided are consistently of good quality and provide a clear audit trail between the amounts in the claim or return and supporting financial documentation.

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
BEN01	Housing & Council Tax Benefits Scheme	A&B	<p>(A) Omissions in the compilation of the claim presented for certification.</p> <p>Corrections for errors identified during our work.</p> <p>Amendments for extrapolated errors in respect of backdated benefits and extended payment periods awarded that were not in line with the regulations.</p> <p>(Q) Validation errors in respect of cells 125 (rent allowances) and 160 (council tax benefit) against the respective headline cells.</p> <p>An unresolved reconciliation difference within the HB system between the amounts paid and the amounts awarded.</p> <p>System and control weaknesses in respect of backdated benefits and extended payments.</p>	Yes	Yes

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
			Failure by the Council to supply sufficient independent documentary evidence to support the occupation and liability to pay rent for homeless people in board and lodging accommodation prior to certification of the claim (subsequently provided following dispatch of claim).		
CFB06	Housing Capital Receipts Claim	A	-	No	No
EDU35	Connexions Lead Bodies	A	(A) Figures in claim were taken from unaudited accounts that were subsequently changed (Q) Uncertainty over eligibility of expenditure	Yes	No
EUR01	The Hamilton Quarter	A	(A) Duplicated expenditure removed Match funding analysis corrected	No	Yes
EUR01	Laird Engineering and Construction Centre	A	(A) Amended ERDF20 not reflected in final claim	No	No
EUR01	Commerce Park and Campbeltown Road	A	-	No	No
EUR01	Grass Roots	A	(A) Compilation error	Yes	No
EUR01	Wirral Way Restoration	A	(A) Grant received to date figure incorrect	No	No

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
EUR01	7 Waves Community Radio	A&B	-	No	Yes
EUR01	Riverside Business Park Phase 2	A	(A) Authority certificate completed incorrectly	Yes	No
EUR01	Wirral Facilitating Finance	A	(A) Compilation error	Yes	No
EUR01	New Brighton Floral Pavilion	A	(A) Authority certificate completed incorrectly Additional expenditure included in claim after claim submitted to auditor Analysis of third party funding incorrect	No	No
EUR01	Wirral Waterfront Core Management Services	A	-	No	Yes
EUR01	Mersey Maritime Institute Phase 1	A	(A) Original claim not signed or dated	No	No
EUR01	Marketing Wirral for Tourism	A	(A) Analysis of funding incorrect	No	No
EUR01	Pride in our Promenades	A	-	No	No
EUR01	Office Development Grange Road East	A&B	(A) Compilation error Ineligible expenditure (Q) Developer and contractor insolvency Ineligible expenditure	Yes	No

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
EUR01	Wirral Community Engagement Strategy	A	(A) Analysis of funding incorrect	Yes	No
EUR01	Birkenhead Park Restoration Plan	A	(A) Change in grant offer letter after submission of claim to auditor	No	No
EUR01	Acquisition and Reclamation of MOD Land	A	(A) Authority certificate completed incorrectly	Yes	No
EUR01	Kings Gap Gateway	A	(A) Analysis of funding incorrect	Yes	No
EUR01	Wirral Entrepreneurship Programme	A	(A) Analysis of funding incorrect	No	No
EYC02	General Sure Start and Childcare	A&B	(A) Expenditure classification incorrect	No	No
HOU21	Disabled Facilities Grant	A	-	Yes	Yes
LA01	National Non Domestic Rates	A	-	Yes	Yes
PEN05	Teachers' Pensions	A&B	-	Yes	Yes
RG01	Wirral Waterfront	A&B	-	Yes	Yes
RG34	Merseyside Waterfront Regional Park	A&B	(A) Arithmetic error (Q) Ineligible expenditure	No	No

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
RG34	Church Road Acquisitions	A	-	No	Yes

¹ For claims below the £500,000 threshold and for those above this threshold where we have placed reliance on the control environment, only limited (Part A) testing has been completed. For claims above the £500,000 threshold where we have not placed reliance on the control environment, full (Parts A and B) testing has been completed.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R1 Ensure that the control environment for all claims and returns is robust and that this is adequately demonstrated when the claim or return is submitted for certification.	2	Grants Coordinator/ Project Manager	Yes	Control Environment checklist has been updated for compilers to complete and verified by Grants Coordinator. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete
11	R2 Ensure all expenditure included in the claims and returns is eligible under the terms and conditions specified by the grant paying body.	2	Grants Coordinator/ Claim Compiler	Yes	Updated procedures to include Certificate Instruction on each claim file. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete
11	R3 Ensure consistently strong internal quality assurance processes and coordination arrangements.	2	Grants Coordinator	Yes	Updated Grants manual for 2008/09 and supplied a copy to all claim compilers and project managers. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete
11	R4 Ensure working papers provided are consistently of good quality and provide a clear audit trail between the amounts in the claim or return and supporting financial documentation.	2	Claim Compiler/Grants Coordinator	Yes	Updated Grants manual for 2008/09 and supplied a copy to all claim compilers and project managers. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete

The Audit Commission

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