

## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**18 JANUARY 2010**

#### **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 2007/08 financial year and how these issues have been addressed.

### **2. BACKGROUND**

2.1 In 2007/08 the Authority received 29 grants which required claim forms to be submitted and audited. In the main these were 'one off' claims for European funded schemes (19 grants) which 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 undertakes limited testing on claims between £100,000 and £500,000 and for claims over £500,000 the amount of work is based upon a risk assessment related to the control environment that is undertaken by the Commission.

2.4 The Audit Commission produces an annual report on grant claim performance with the charges to the Authority for grant claim work being on an hourly basis. This is in addition to charges made for non-grant work for the Authority.

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

3.1 The Audit Commission report on the 2007/08 grants (audited during 2008/09), of which the key elements are summarised in the Appendix, demonstrates that the Authority continues to improve its grant claim preparation and co-ordination processes:-

- The proportion of qualified claims fell from 25% (8 claims in 2006/07) to 14% (4 claims in 2007/08). Qualification letters are produced where the auditor wishes to raise an issue with the paying body and do not necessarily imply that there is an error with any claim.
- The control environment was relied upon by the Commission for 68% of all claims submitted for 2007/08 compared to 28% in 2006/07. This represents a significant improvement but it should be noted that the value of the claims for such as Housing Benefit and Pensions will always require the Commission to undertake detailed work and not rely solely on the control environment.
- It was commented that claims were generally accompanied by a comprehensive file of working papers and that requests for information were responded to well and in a timely manner. Good quality working papers and ensuring timely responses to queries helps minimise the need for detailed audit testing which reduces the audit charges.
- The Council has developed good grant claim co-ordination arrangements which are supported by a Grants Manual. It was commented that the roles and responsibilities of the Co-ordinator outlined in the manual represent good practice.

3.2 A number of concerns were highlighted by the Audit Commission report:-

- The number of amended claims increased from 7 in 2006/07 to 19 in 2007/08. The majority of the amendments related to errors in the certification, presentation of the figures or the analysis of funding. Only 8 resulted in a change to the amount being claimed.
- The number of claims submitted late totalled 16 (55%). However this did include 12 schemes which involved European funding for which the final claims have been subject to further rulings over certification arrangements. In November 2007 certification was suspended whilst the Government decided which claims should be subject to external auditor certification with agreement not reached until April 2008.
- The most significant issues in the year arose on the claims for Housing and Council Tax Benefit, Connexions Lead Bodies, Grange Road East and Merseyside Waterfront Regional Park

- 3.3 All points raised in the year relevant to individual claims are listed in Appendix 1 of the Audit Commission report and have been consolidated from the various audit reports returned to the paying bodies as part of the audit process.
- 3.4 The Audit Commission made four recommendations in their report:-
- i) 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.
  - ii) Ensure all expenditure included in the claims and returns is eligible under the terms and conditions specified by the grants paying body.
  - iii) Ensure consistently strong internal quality assurance processes and co-ordination arrangements.
  - iv) 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.

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

- 4.1 The Audit Commission report is based upon grant claim audits relating to the 2007/08 financial year and the Authority has taken action to address the issues raised. Further actions will be undertaken to respond to matters raised on the claims for 2008/09 which are being audited this financial year.
- 4.2 The action plan in response to the recommendations has been implemented during 2008/09:-
- i) The grant co-ordination procedure manual has been comprehensively updated to include new procedures for 2008/09 and has been circulated to all claim compilers and project managers.
  - ii) An updated Control Environment sheet has been produced to include a number of additional checks before any claim is submitted. The Audit Commission reviews the control environment for each claim when determining the level of audit required. The Control Environment considers factors such as, the experience of those preparing the claim, internal financial controls, quality of supporting working papers and the size of claim.
  - iii) Training presentations have been made to claim compilers and project managers on grant claim best practice. In addition to this, one-to-one meetings have taken place with claim compilers and project managers to ensure they are aware of the standard of files/working papers expected with their claim.

- 4.3 Although a larger proportion of claims were submitted late in 2007/08 than in 2006/07, the Commission did acknowledge that the 2007/08 grants programme was particularly challenging. This included the issues relating to the European funded projects as outlined in section 3.2 which will not recur in future years.
- 4.4 There was an increase in the number of amendments to claims with many of these being minor changes as only 8 impacted on the amount of grant claimed. The actions taken in section 4.2 should reduce the need for such amendments in future claims.
- 4.5 In terms of the four claims that were qualified:
- **Housing and Council Tax Benefits**  
The nature and scale of the regulations from the Department for Work and Pensions and the value being in excess of £120 million make this claim extremely complex.  
The qualification essentially covered validation errors. The substantiating information relating to payments of rent for homeless people was raised towards the end of the audit and a satisfactory response provided but this was after the completion of the Audit.
  - **Connexions Lead Bodies**  
The claim was qualified due to uncertainty over eligibility of an item of expenditure. Details were provided to the grant paying body which was satisfied that it was eligible for grant so no repayment was required.
  - **Grange Road East**  
The qualification was made on the basis of two issues:-  
The developer went into receivership. Whilst this was true the project had been completed and the outputs delivered as stated in the original grant application. The grant paying body was satisfied that the Authority had acted within the terms of the offer letter.  
The Commission took the view that £244,000 of professional fees had been incurred prior to the project start date (which would deem it ineligible under the terms of the grant offer). The Council presented evidence that the fees were not incurred before the start date and the grant paying body agreed and accepted the claim.
  - **Merseyside Waterfront Regional Park**  
The qualification was issued on the basis that:  
expenditure of £55,000 was wrongly classified as management & administration, expenditure had been vired across budget heads and a payment in advance had been made. The Commission viewed these as being against the terms of the offer whilst the grant paying body were satisfied with the interpretation and reasoning and signed the project off as being completed in accordance with the offer letter.

4.6 There were a number of issues detailed within Appendix 1 of the Audit Commission report which had no impact on grant entitlement. The Grant Co-ordination Team will 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 delivers 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/EQUALITY IMPACT ASSESSMENT**

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 – November 2009.

## **13. RECOMMENDATION**

13.1 That the report be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE

**WIRRAL COUNCIL – GRANT CLAIMS SUMMARY 2007/08**

<b>Ref</b>	<b>Claim Title</b>	<b>Value £</b>	<b>Audit Fee £</b>	<b>Amends £</b>	<b>Amended</b>	<b>Qualified</b>	<b>Time</b>
BEN01	Housing & Council Tax Benefits Scheme	120,149,129	64,960	119,824	yes	yes	yes
CFB06	Housing Capital Receipts	211,620	910	0	no	no	no
EDU35	Connexions Lead Bodies	20,771,564	4,038	344,352	yes	yes	yes
EUR01	The Hamilton quarter	363,445	65,472	-1,751	yes	no	no
EUR01	Laird Engineering and Construction Centre	545,613		-2,412	yes	no	no
EUR01	Commerce Park & Campbeltown Road	942,847		0	no	no	no
EUR01	Grass Roots	606,000		0	yes	no	yes
EUR01	Wirral Way Restoration	104,023		0	yes	no	no
EUR01	7 Waves Community	1,036,695		0	no	no	no
EUR01	Riverside Business Park Phase 2	1,970,582		0	yes	no	yes
EUR01	Wirral Facilitating Finance	1,087,367		0	yes	no	yes
EUR01	New Brighton Floral Pavilion	4,450,099		31,474	yes	no	no
EUR01	Wirral Waterfront Core management	1,002,251		0	no	no	no
EUR01	Merseyside Maritime Institute Phase 1	697,000		0	yes	no	no
EUR01	Marketing Wirral for Tourism	388,473		2,527	yes	no	no
EUR01	Pride in Our Promenades	485,981		0	no	no	no
EUR01	Office Development Grange Rd East	2,079,112		-2,902	yes	yes	yes
EUR01	Wirral Community Engagement Strategy	284,642		-270	yes	no	yes
EUR01	Birkenhead Park Restoration Plan	2,176,548		0	yes	no	no
EUR01	Acquisition and Reclamation of MOD Land	1,022,000		0	yes	no	yes
EUR01	Kings Gap Gateway	860,000		0	yes	no	yes
EUR01	Wirral Entrepreneurship Programme	276,800		0	yes	no	no
EYC02E	General Sure Start & Child Care	11,122,229		5,998	0	yes	no
HOU21	Disabled Facilities Grant	976,345	1,967	0	no	no	yes
LA01	National non Domestic Rates	55,199,601	2,553	0	no	no	yes
PEN05	Teachers Pensions	21,764,055	2,898	0	no	no	yes
RG01	Wirral Waterfront	2,100,896	4,830	0	no	no	yes
RG34	Merseyside Waterfront Regional Park	4,194,945	6,785	0	yes	yes	no
RG34	Church Road Acquisition	744,850	0	0	no	no	no
	Total	<b>257,614,712</b>	<b>160,408</b>	<b>490,842</b>	Yes 19	Yes 04	Yes 13
	Grant Planning & Administration		<b>14,256</b>		No 10	No 25	No 16
	Total	<b>257,614,712</b>	<b>174,664</b>	<b>490,842</b>			