

NORTH LINCOLNSHIRE COUNCIL


AUDIT COMMITTEE


EXTERNAL AUDIT REPORT: GRANT CLAIMS 2008/09

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To consider a report by the council's auditors, the Audit Commission on the council's arrangements for claiming grants in 2008/09, and the assurance that can be implied from its conclusions on the operation of the council's procedures.

1.2 The main points are:

 That council performance was broadly the same as the previous year but with an improvement in timeliness.

 Sixteen claims were certified, of these four were amended and three qualified.

1.3 An action plan has been prepared to implement the auditor's recommendations for improvement.

2. BACKGROUND INFORMATION

2.1 The council receives a wide range of grants from a variety of bodies each year. There are conditions attached to some of these grants by the grant paying body. The council must comply with these conditions to ensure it remains entitled to receive the grant. To verify that the conditions have been met an independent audit is required for some grants. In 2008/09 grants worth £130 million were audited.

2.2 In practice this means that the council's auditors must satisfy themselves that claims submitted by the council for a range of individual grants have been applied for approved purposes; and that the expenditure on which the grant is claimed is eligible, properly evidenced and accurate.

2.3 To do this the auditor relies on the council's overall arrangements for submitting grant claims and on specific tests on individual claims. A key control is the council's financial procedures and in particular the grants protocol. This provides guidance for officers involved in preparing grant

claims and sets out standard procedures which should be followed. Ultimate responsibility for signing off grant claims lies with the Service Director Finance.

2.4 Arising from this work the auditor makes a report on the council's arrangements for the timely and accurate submission of grant claims. This is presented here for the accounting year 2008/09.

2.5 The key findings:

- The council has formal arrangements in place
- The effectiveness of these arrangements has been maintained and timeliness has improved significantly
- Four claims were amended and three were inaccurate
- The report makes recommendations for improvements the council needs to make
- It includes an action plan agreed by council officers to address the points raised

3. **OPTIONS FOR CONSIDERATION**

3.1 The report concludes that the council's handling of grant claims remains robust and timeliness has improved. The Committee needs to consider the level of assurance that can be implied from this conclusion regarding the operation of the council's procedures. Clarification should be sought by the Committee on the findings as necessary. A review of the report findings has identified areas for improvement, and an action plan has been prepared.

4. **ANALYSIS OF OPTIONS**

4.1 The table on page 1 of the provides a summary of the council's performance. It reports:

 4 required amendment (same as 2007/08)

 3 were qualified (one more than 2007/08)

4.2 The action plan (Appendix 2 page 9 of the report) makes three general recommendations about the grant process. It also makes one specific recommendation about the checking arrangements on the Housing Benefit rent allowance claim.

5. **RESOURCE IMPLICATIONS** (*FINANCIAL*)

5.1 There are no additional resource implications.

6. **OTHER IMPLICATIONS**

6.1 Implementation of the action plan will help the council ensure that it meets the requirements of grant funders.

6.2 It will also reduce the risk of submitting inaccurate claims which potentially could result in loss of grant to the council.

7. **OUTCOMES OF CONSULTATION**

7.1 Not required.

8. **RECOMMENDATIONS**

8.1 That the Committee consider the findings of the Audit Commission's report and the assurance that can be implied from its conclusions regarding the operation of the council's procedures.

8.2 That the action plan in Appendix 2 page 9 of the report be implemented and monitored.

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Mark Kitching
Date: 23rd March 2010

Certification of Claims and Returns - Annual Report

North Lincolnshire Council

Audit 2008/09

February 2010



Contents

Summary Report	3
Detailed report	4
Appendix 1 - Summary of amendments and qualifications	8
Appendix 2 – Action Plan	9

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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Summary Report

Introduction

- 1 A significant amount of the Council's income comes from government grants and subsidies, some of which are subject to certification from the Audit Commission. This report covers our assessment of the Council's arrangements for submitting grant claims.
- 2 The total value of the sixteen claims/returns certified amounted to £130,413,745.
- 3 The total fee charged to certify these claims/returns was £58,853.

Background

- 4 We are required to undertake specific testing for each claim, specified in the Audit Commission's Certification Instructions. These instructions are agreed with the grant paying body. We test on a risk based approach:
 - we are not required to certify claims below £0.1 million.
 - any claims between £0.1 million and £0.5 million are subject to a reduced level of testing; and
 - claims of over £0.5 million are risk assessed, and a suitable level of testing is applied.
- 5 Efficient preparation of grant claims by the Council:
 - requires proper supporting documentation;
 - avoids the potential suspension of payments from government departments; and
 - reduces audit fees.

Main conclusions

- 6 Overall, there are no significant issues to report, however, we found some weaknesses in individual claims:
 - working paper files provided by the Council to support the claims were generally satisfactory, apart from one example when the file was returned; and
 - there is scope to improve your quality assurance arrangements. The overall proportion of claims submitted for certification requiring amendment and or qualification has increased slightly compared to last year, with four claims requiring amendment and three being qualified.

Detailed report

Qualifications and amendments

- 7 As can be seen from Table 1 below, 2008/9 performance was largely consistent with 2007/08 with a slightly higher proportion of amended and qualified claims, but still significantly better than 2006/07.

Table 1 Qualifications and amendments

	2008/09	2007/08	2006/07
Number of individual claims certified	16	21	18
Number of amended claims	4	4	12
Number of qualified claims	3	2	2

Claim Submission

- 8 Grant paying bodies can suspend payment to the council if grant claims are submitted late. In 2008/09 the Council submitted most claims on time, a vast improvement on previous years. There was just one claim submitted seven weeks late, the School Centred Initial Teacher Training claim.

Arrangements for managing and administration grant claims

- 9 The Council is responsible for ensuring that claims and returns are completed accurately and in accordance with the scheme terms and conditions. Claims must be supported by systems of internal control which are both adequate and effective in practice.
- 10 The Audit Commission's briefing Claims and Returns: Good practice for Authorities sets out the key elements of good practice for authorities for the proper and accurate preparation of claims and returns and for the establishment of effective administration and financial systems, including proper arrangements to prevent and detect fraud.
- 11 Finance staff review all claims to ensure there is proper supervision and review before the claim is signed off by the Service Director Finance and release for our review. There is scope to improve the arrangements, with greater focus on ensuring that grant terms and conditions are met.

Detailed report

- Disabled facilities grant did not comply with new terms and conditions.
 - Procurement rules were not followed in two claims and these claims were qualified.
- 12** Better evidencing of the review process, rather than just completing the checklists with ticks or yes answers would improve the process further. We also identified one instance where a verbal agreement to vary the terms and conditions of the grant, was not confirmed in writing.

Recommendation

R1 The grant claims and returns checklists already in place should be updated to include a better focus and improved evidencing of the following areas:

- compliance with the scheme's terms and conditions;
- adequacy of internal financial control, in relation to the claim or return;
- adequacy of working papers to support the claim or return.

The existing checklists should be reviewed against those in the briefing Claims and Returns: Good practice for Authorities.

R2 Any communication with grant paying bodies which affects the terms and conditions of the grant should be confirmed in writing and held on file.

Working Papers

- 13** Overall we found adequate working paper files with some improvement areas identified. We returned only one file, due to inadequate evidence, but had to seek additional evidence/working papers for a number of other claims.
- 14** The main issue with respect to working papers centred on the adequacy of reconciliation of the claim/return to the ledger. This is important to ensure that the claim was compiled on the correct basis (ie accruals or payments depending on terms and conditions). Amendments to two of the claims could have been avoided by more thorough review of reconciliations during quality assurance. These two claims contained income/expenditure outside the period covered by the claim. Additionally, the file we returned did not contain an adequate reconciliation to the ledger.

Recommendation

R3 The quality assurance processes should ensure that robust reconciliations to the ledger have been evidenced in all cases in compliance with the agreed process and that the claim/return is compiled on the correct basis in accordance with the grant terms and conditions.

Housing benefits

- 15** The Council receives significant Housing Benefit Grant. New guidance issued by the Audit Commission and agreed with the DWP reduced initial testing required and clarified the circumstances when a qualification was necessary, increasing the likelihood of this.
- 16** We agreed a small amendment to the claim following testing, and issued a qualified certificate on the 27 November 2009, before the 30 November 2009 deadline.
- 17** We found a relatively high proportion of errors (18 per cent) in our initial discovery sample because of a similar error in one particular type of claim. There were five out of fourteen (36 per cent) Non-hra rent allowance incorrect. This compared to four out of forty (1 per cent) for council tax and private rent allowance claims.
- 18** In these circumstances the guidance asks us to request additional testing which was carried out by the council. This resulted in an overall error rate of 4 per cent see table 1 below. More consistent with the findings of the council's internal checking arrangements.

Table 2 Error Rate

	Sample Number	Errors Number	Errors %
Discovery Sample	55	10	18%
Additional Testing	300	4	1%
Total Sample	355	14	4%

- 19** You amended the claim for some of the cells, but there remained uncertainty over the possible impact on the claim of other errors. This was because we could not isolate the errors or prove conclusively the error rates were representative of the population as a whole. There were three specific areas:
- you did not include Child benefit income in two cases. Similar errors had been identified by your internal checking arrangements, but there was no information to quantify the errors or impact;
 - two new claims had incorrect start dates but as there are over 10,000 new claims the level of testing to conclude would have been prohibitive; and
 - we identified two errors in claims with changes in circumstances, where it was not possible to conclude the errors were isolated in the total population.

Detailed report

Recommendation

R4 Housing Benefit Checking Arrangements should look target areas of local greater risk of error such as Non-hra rent allowance claims.

Appendix 1 - Summary of amendments and qualifications

CI Ref	Title of Claim	Reason for (A) amendment and/or (Q) qualification
BEN01	Housing and Council Tax Benefits	(Q) (A) Qualification and amendments to various cells due (see Housing Benefits section).
EYC02	Sure Start	(A) Amendments to the claim reduced by £14,028 ineligible expenditure.
HOU21	Disabled Facilities	(Q) (A) Amendment due to inclusion of £90,566 of ineligible expenditure and qualified due to failures to follow proper tendering arrangements for the quantity surveyor managing projects and one example of building works.
RG33	South Humber Bank Heritage	(Q) Qualification letter issued due to incorrect classification of expenditure a repeat of a 2007/8 error. Additionally tendering arrangements had not been followed for one contract.
RG33	Crowle Market Place	(A) Income received in bank after due date, claim amended to meet grant terms and conditions.

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	<p>R1 The grant claims and returns checklists already in place should be updated to include a better focus and improved evidencing of the following areas:</p> <ul style="list-style-type: none"> • compliance with the scheme's terms and conditions; • adequacy of internal financial control, in relation to the claim or return; • adequacy of working papers to support the claim or return. <p>The existing checklists should be reviewed against those in the briefing Claims and Returns: Good practice for Authorities.</p>	3	Grant claim Co-ordinator	Yes	A full review is to be undertaken of the relevance and suitability of the elements included in the grant claim preparation checklist to ensure there is more emphasis on checking areas previously identified as weaknesses, and improving the evidencing of checks made.	SC by 31 March 2010
6	<p>R2 Any communication with grant paying bodies which affects the terms and conditions of the grant should be confirmed in writing and held on file.</p>	3	Project officer / Finance teams	Yes	No claim is to be submitted where there has been a verbal amendment to the grants terms and conditions without obtaining confirmation of such amendments in writing.	31 March 2010
7	<p>R3 The quality assurance processes should ensure that robust reconciliations to the ledger have been evidenced in all cases in compliance with the agreed process and that the claim/return is compiled on the correct basis in accordance with the grant terms and conditions.</p>	3	Project officer / Finance teams	Yes	All claims are to be supported by a reconciliation to the ledger, referenced to evidence in the working papers. This should ensure that the claim is being made on the correct basis (ie payments or accrual).	31 March 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R4 Housing Benefit Checking Arrangements should look target areas of local greater risk of error such as Non-HRA rent allowance claims.	3	Chrissy Dyer, Benefits operational manager	Yes	All benefit calculations are subjected to a 4% quality check. These are undertaken using a sample selected by the IT system. Areas of greater risk are targeted for example all new assessors are subject to 100 per cent check until we are satisfied that they are competent and then checked on a reducing sliding scale until they are at 4%. If there are any recurring types of cases with errors then these are targeted for higher checking, as are any changes to procedures.	Immediate and ongoing

The Audit Commission

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk