

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**CLAIMS ANNUAL REPORT 2009/10**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To consider a report from the council's auditors, the Audit Commission on the council's arrangements for claiming grants in 2009/10, and the level of assurance it provides on the operation of the council's procedures
- 1.2 The main points are:
- There were no significant weaknesses in the council's arrangements to prepare grant claims
  - Of 15 grants certified only 2 were amended, and 4 were 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 government departments and other bodies each year. There are conditions attached to some of these grants by the grant paying body. In these cases there needs to be an independent audit to verify that the conditions have been met. In 2009/10 approximately £137m of grant income was subject to audit.
- 2.2 In practice this means that the council's auditors (the Audit Commission) must satisfy themselves that claims submitted by the council for a range of individual grants have been applied on approved purposes; and that the expenditure on which grant is claimed is 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 2009/10 in appendix A.

2.5 The key findings are:

- There were no significant weaknesses in the council's arrangements to prepare grant claims
- Apart from the Sure Start claim good supporting working papers were provided, better (than prior years) and queries were responded to promptly.
- The report makes recommendations on what improvements the council needs to make. An action plan has been agreed by council officers to address the points raised.

### **3. OPTIONS FOR CONSIDERATION**

3.1 The report has identified improvements in the council's handling of grant claims, and the Committee needs to consider the level of assurance given by the report on 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 Table 1 of the report provides a summary of performance compared to previous years. It reports:

- 15 claims were certified
- 2 required amendment (down)
- 4 were qualified (up)

4.2 The action plan (Appendix 2, of the report) makes three recommendations for improving current procedures. These relate to improved compliance with Contract Procedure Rules, maintenance of asset records to support for grant funded assets and quality control procedures to ensure compliance with grant conditions..

## **5. RESOURCE IMPLICATIONS**

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 extent to which it provides assurance on the operation of the council's procedures.

8.2 That the action plan in Appendix 2 of the report is endorsed.

SERVICE DIRECTOR FINANCE

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Date: 05 January 2011

### **Background Papers used in the preparation of this report**

Claims Annual Report 2009/10', Audit Commission January 2011

# **Certification of claims and returns - annual report**

**North Lincolnshire Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**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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# Summary

**This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** North Lincolnshire Council receives more than £280 million funding from various grant paying departments. The grant paying departments attach conditions to these grants with which you need to demonstrate compliance. If you cannot evidence this, the funding can be at risk. It is therefore important you manage certification work properly, and demonstrate that the relevant conditions have been met.

**2** In 2009/10, my audit team certified 16 claims with a total value of £137 million. Of these, we carried out a limited review of eight low risk and smaller claims and a full review of eight claims. (Paragraph 11 explains the difference.)

**3** Overall there were no significant weaknesses in your arrangements to prepare grant claims. Apart from the Sure Start claim, you provided good supporting working papers, better than prior years and responded promptly to our queries.

**4** In summary:

- we issued a clear opinion for 11 claims;
- four claims were qualified without amendment because they did not fully comply with the terms of the grant; and
- of these four claims two needed minor amendment.

**5** Appendix 1 sets out a full summary.

**6** Your improvement in the administration of claims seen over the last three years has been maintained. See table 1 overleaf.

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Table 1: **Qualifications and amendments**

	2009/10	2008/09	2007/08
Number of individual claims certified	16	16	21
Number of amended claims	2	4	4
Number of qualified claims	4	3	2

## **Certification fees**

**7** The fees I charged for grant certification work in 2009/10 were £57,000 slightly higher than 2008/09.

## **Actions**

**8** Appendix 2 summarises my recommendations. I have agreed the recommendations with officers.

# Background

**9** I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to North Lincolnshire Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**10** You are responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**11** The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. The level of testing will depend on the level of risk we identify so the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**12** For the 11 claims above £500,000 listed at Appendix 1, we are required to assess the control environment. We assessed six out of 11 of the claims as strong limiting the testing. We did however carry out detailed testing on four of these claims. Under the Audit Commission regime, claims must be subject to a full review at least once every three years, even where a strong control environment is in place.

**13** We were unable to fully rely on the control environment for five claims:

- three of the claims Housing benefit, Disabled Facilities and Sure Start required amendment/qualification in the 2008/9 audit year; and
- two were first year claims in 2009/10 Yorkshire forward, The Pods and Crowle Phase 2.

## Specific claims

### Sure Start, Early Years and Childcare

**14** We identified several administrative issues over this claim, the only claim where arrangements were less good compared with 2008/09.

**15** The key issues were:

- late submission of the claim for audit, two weeks after the deadline and service staff were slow to respond to audit queries;
- ineligible expenditure from a prior period. We found similar problems in 2008/09;
- failures to follow the Council's Contract Procedure Rules, affecting £0.2 million of revenue expenditure and £0.1 million of capital expenditure; and
- no asset records for assets purchased at one of your primary schools, a requirement of the grant conditions.

### Disabled Facilities Grant

**16** Whilst overall the completion of this grant was a significant improvement on 2008/09, we identified one isolated case of a failure to seek the required number of tenders.

## Yorkshire Forward - Crowle Market Place Phase 2

**17** We found minor problems with two contracts, not fully complying with Yorkshire Forwards requirements. Written consent is needed if only one quotation is received. The relevant contracts were:

- Highways Alliance Framework with expenditure totalling £0.5 million this was correctly let in accordance with the council's procedures but did not fully comply with Yorkshire Forward's specific requirement; and
- Bauman Lyons with expenditure totalling £0.3 million. Three quotations were requested but only one received.

### Recommendations

**R1** Contract Procedure Rules must be followed in all Directorates. Monitoring of compliance should be carried out.

**R2** Arrangements are put in place to ensure adequate asset records are held for grant funded assets.

**R3** Quality control procedures for all grant claims be improved to ensure compliance with grant terms and conditions is upheld. This review process should be evidenced on the claim file.

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## Housing benefits

**18** The Audit Commission agree the Housing benefit testing approach with the DWP, designed to identify possible grant over-claims, via a grant report. We often cannot conclude on the impact of any errors we find because of the size and nature of this complex claim. In this circumstance, we qualify the claim and report the matter to the DWP. The DWP may then ask you to carry out testing to quantify the impact of the errors accurately.

### 2008/09 follow-up testing

**19** In 2008/09 testing identified three claimants without child benefit income fully recorded. At the time, there was not enough information to quantify the errors or impact on the overall claim so we qualified the claim. The DWP wrote to you in July 2010 pointing out a possible £0.24 million cut in grant, unless you were able to assess the actual impact of these errors on the overall claim.

**20** There are thousands of claimants entitled to child benefit. A detailed analysis of these claims carried out by Housing Benefit and your internal audit staff managed to identify 86 similar types of claim. Fourteen were wrong and you were able to prove the actual impact on subsidy was nil.

**21** Your testing provided us with sufficient information to confirm your methodology was soundly based and I reported that to the DWP.

## 2009/10 testing

22 Following testing you made a small amendment to the claim I issued a qualified certificate on the 28 November 2010 in time for the 30 November 2010 deadline.

23 Overall we found fewer errors in our initial work compared with 2008/09, illustrated in table 2 below.

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Table 2: **Housing Benefit initial sample**

	2009/10	2008/09
Initial Sample	66	55
Errors	3	10

24 You then carried out more work to isolate the errors found quantifying the actual impact on the claim. You were however, unable to confirm the actual error in one error type; processing pensions credit notifications because of the number of claims. You identified 2,106 potential cases testing 385 using a statistical sampling approach. This demonstrated a possible small underpayment of grant which I reported to the DWP.

25 We received good support from your housing benefit and internal audit staff in completing this work, much appreciated by my staff.

## Appendix 1 Summary of 2009/10 certified claims

### Claims and returns above £500,000

Claim	Value in year £	Full reliance on Control environment	Amended	Qualification letter
Ben 1 Housing benefit	49,071,438	No - Inherently high risk and qualified in 2008/09	Yes	Yes
RG33 - Acquisition of Club 2000 (Scheme total £1,144,600)	41,640	Yes - however affected by three-year rule	No	No
RG33 - Scunthorpe Urban Renaissance Management (Scheme total £558,956)	134,517	Yes - however affected by three-year rule	No	No
RG33 - Sports Academy Reinvigorating Central Park (Scheme total £1,800,000)	7,795	Yes - however affected by three-year rule	No	No
RG33 - Crowle Market Place - Phase 1 Scheme total (£598,000)	23,715	Yes	No	No
RG33 - Crowle Market Place - Phase 2	1,199,306	No - New Claim	No	Yes
RG33 - The Pods	2,074,955	No - New Claim	No	No
PEN 05 - Teachers Pensions	9,722,168	Yes - however affected by three-year rule	No	No
LA01 NNDR 3	68,806,672	Yes	No	No
EYC02 - Sure Start, Early Years and Childcare	5,395,999	No - Previous qualification	Yes	Yes

Claim	Value in year £	Full reliance on Control environment	Amended	Qualification letter
HOU 21- Disabled Faculties Grant	564,000	No - Previous qualification	No	Yes

### Claims between £125,000 and £500,000

Claim	Value in 2009/10 £	Amended
RG33 - Lincolnshire Lakes Feasibility Study (Scheme total £360,789)	90,000	No
EDU06 - TDA Annual Return	428,865	No
RG33 - South Humber Bank Management (Scheme total £135,138)	63,408	No
RG33 - Scunthorpe Town Centre Masterplan	121,581	No
RG33 - Community and Economic Development (Scheme total £133,236)	48,309	No

## Appendix 2 Action plan

### Recommendations

#### Recommendation 1

Contract Procedure Rules must be followed in all Directorates. Monitoring of compliance should be carried out.

<b>Responsibility</b>	Tracy Elliott, Finance Manager (CYP)
<b>Priority</b>	High
<b>Date</b>	April 2011
<b>Comments</b>	Finance Manager (CYP) will liaise with the Children's and Young Peoples Service to ensure that an independent check on the degree of compliance with the terms and conditions of the Sure Start Grant will take place.

#### Recommendation 2

Arrangements are put in place to ensure adequate asset records are held for grant funded assets.

<b>Responsibility</b>	Tracy Elliott, Finance Manager (CYP)
<b>Priority</b>	High
<b>Date</b>	April 2011
<b>Comments</b>	See above.

#### Recommendation 3

Quality control procedures for all grant claims be improved to ensure compliance with grant terms and conditions is upheld. This review process should be evidenced on the claim file.

<b>Responsibility</b>	Mark Kitching, Corporate Accountant
<b>Priority</b>	High
<b>Date</b>	March 2011
<b>Comments</b>	The grants return control sheet will be redesigned to include a requirement for the Manager responsible for the grant claim to confirm that all the terms and conditions of the grant have been complied with.

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