

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**EXTERNAL AUDIT REPORT: GRANT CLAIMS 2007/8**

**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 2007/08, and the assurance that can be implied from its conclusions on the operation of the council's procedures
- 1.2 The main points are:
- Less claims were late or inaccurate than in the previous year
  - Of twenty one grants certified only four were amended, two others 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 2007/08 approximately £124m 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 2007/08.

2.5 The key findings are:

- The council has formal arrangements in place
- The effectiveness of these arrangements has improved over the last two years.
- A small number of claims were submitted late, four were inaccurate, and two were qualified
- The report makes recommendations on what improvements the council needs to make
- Two claims sent for certification were not on the register of claims
- It includes an action plan agreed by council officers to address the points raised.

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

3.1 The report has identified that the council's handling of grant claims has improved, and 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 Tables on pages 5 and 6 of the report provides a summary of performance compared to best practice targets. It reports:

- 81% of claims submitted on time (up on 2006/07)
- 4 required amendment (down)
- 2 were qualified (same)

4.5 The action plan (Appendix 2, page 9 of the report) makes four recommendations for improving current procedures. Three are general and focus on better internal communication and the checking of claims the fourth is a specific recommendation about a Housing Benefit claim.

## **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 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

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

'Grant claims 2007/08', Audit Commission February 2009

# Grant Claims

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North Lincolnshire Council

Audit 2007/08

March 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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# Summary Report

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## 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. Income for 2007/08 was in excess of £149 million, of which approximately £124 million was submitted for audit.
- 2 The introduction of the Local Area Agreement has meant that the number of claims requiring certification has reduced over the last five years. However, the certification of grant claims still requires a considerable amount of resources from the Audit Commission.
- 3 Efficient preparation of grant claims by the Council should ensure that:
  - claims are properly supported by the required documentation;
  - the potential suspension of payments from government departments is avoided;
  - problems are highlighted and resolved for future audits; and
  - reduction in audit fees is maximised under the Commission's certification arrangements
- 4 This report covers our assessment of the Council's arrangements for the submission of grant claims

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## Background

- 5 The work that we are required to undertake in respect of each claim is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussions with the grant paying body.
- 6 We are required to carry out tests using a risk based approach. This means that any grant claim of below the de-minimis of £100k is not required to be certified by the Commission, any claim between the de-minimis and the threshold of £500k is subjected to a reduced level of testing and any claim of over £500k is assessed on risk and a suitable level of testing is applied.

- 7** The risk assessment requires consideration of a number of factors before the level of testing is decided, for example:
- the size and complexity of the claim and the relevance of each test to transactions at the Council;
  - the history of the claim at the Council and whether there have been any significant issues or concerns in the past;
  - the quality of working papers produced by the Council to support entries on the claim; and
  - the extent to which Internal Audit has been used to verify entries in the claim and the extent to which we can rely on that work.
- 8** As the Audit Commission took over the audit of the Council for 2007/08, we had little knowledge of the history of the grant schemes and working paper files that the Council provide to support the grants requiring certification. This, therefore, had to be taken into consideration when assessing the risk attached to the claims above £500k.

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### Main Conclusions

- 9** In general, the quality of the working paper files provided by the Council to support the claims requiring certification was of a good standard. There was only one occasion of a file being returned but as a result of this we found an improvement in the quality of all working paper files.
- 10** The number of claims submitted for certification requiring amendment and or qualification was low, with only four claims requiring amendment and two being qualified.
- 11** The Council has formal arrangements in place to ensure the timely and accurate submission of grant claims and the number of claims submitted for certification on time has vastly improved over the last two years. However, there remains a small proportion that is submitted late. There is a risk that grant-paying bodies will withhold funding if claims are late.
- 12** Two final claim grants received in November were not on the register of claims we were expecting to receive for certification for 2007/08. It is important that we are aware of all grant claims requiring certification in order to plan the work.
- 13** Set out below are our specific findings and recommendations arising from the 2007/08 certification work.

# Detailed report

## Qualifications and amendments

**14** As can be seen from Table 1 below, we have seen a significant improvement in the overall quality of grant claims with a reduction in the number of claims amended. The number of claims qualified remained the same as the previous year.

**Table 1 Qualifications and amendments**

	<b>2007/08</b>	<b>2006/07</b>
Number of individual claims certified	21	18
Number of amended claims	4	12
Per cent amended	21 per cent	67 per cent
Number of qualified claims	2	2
Per cent qualified	10 per cent	11 per cent

## Recommendations

- R1** Carry out the independent review as part of the compilation of the working paper file. This reduces the risk of minor errors, such as arithmetic errors, which was the reason for two of the four amendments.
- R2** Ensure any treatment of expenditure which varies from the guidance is supported by approval from the grant paying body. This was the reason for both qualifications.

## Claim Submission

- 15** Any delay in the submission of grant claims for certification has the potential to delay the submission of the certified claim to the grant-paying body. In some cases this may carry a risk of payments being suspended and subsequent financial loss to the Council.
- 16** Two Yorkshire Forward grant claims were submitted in November. These were not on the register of claims that the Council provided us with and therefore we were not aware these needed certifying. This increases the risk of missing the deadline and therefore the Council may be subject to financial penalties.

**Recommendation**

**R3** Ensure that all claims requiring certification are included on the grants register.

**17** As shown in Table 2 below, the Council has made a vast improvement on the submission of grant claims requiring certification on time.

**Table 2 Submission record**

	<b>2007/08</b>	<b>2006/07</b>
Number of claims submitted for certification	21	18
Number of claims submitted within the deadline	17	8
Per cent within deadline	81 per cent	44 per cent

**Working Papers**

**18** The standard of working paper files was good, with a general improvement being shown throughout the 2007/08 audit year. It was necessary to return only one file; this was due to it being poorly evidenced and referenced.

**Housing benefits**

**19** The Council receives a significant level of Housing Benefit Grant, in excess of £37.4 million in 2007/08 and the certification of this claim is the most significant in terms of the resources required.

**20** The audit of the claim was initially completed on 21 November 2008, with the deadline for submission shortly after on 30 November. A number of errors were identified resulting in the need to recalculate some parts of the claim as showed in Table 3. The certified claim was submitted before the 30 November deadline.

**21** The work was carried out by the Audit Commission under the Certification Instructions issued by the Audit Commission in liaison with the DWP. The testing was carried out under the new HB COUNT method, introduced in 2007/08. This method was introduced to reduce the amount of detailed testing and initially meant it was necessary to test only 80 cases covering the four types of benefit.

**22** In our initial testing we found a number of errors. Consequently, we requested Internal Audit to carry out additional testing to assess whether these errors were one-off or more systematic. The reasons for the errors were identified and the population was drilled-down to identify any similar errors. As a result, 160 more cases were tested; this is 40 per error type.

## Detailed report

- 23** After carrying out the additional testing, we extrapolated the errors and made amendments to five cells. This had a minimal impact on the overall subsidy total; it was reduced by £1758.
- 24** Table 3 below shows the agreed cell amendments for the Housing and Council Tax Benefit subsidy claim.

**Table 3 Housing Benefit cell amendments**

Cell	Amendment	Reason
38	-£1515	Incorrect classification of backdates (no effect on subsidy)
126	-£635	Incorrect classification of backdates (no effect on subsidy)
142	-£1758	Incorrect award of extended payment period.
143	-£1758	Incorrect award of extended payment period. This reduces subsidy by -£1758
161	-£278	Incorrect classification of backdates (no effect on subsidy)

- 25** During the 2007/08 subsidy claim, there was an amendment due to claimants who were receiving only Council Tax Benefit being incorrectly awarded an Extended Payment Period. This was the reason for the reduction in subsidy.

### Recommendation

- R4** Benefits assessors must ensure that Extended Payment Periods for Council Tax Benefit are awarded correctly and don't overlap with Mortgage Interest Run On.

# 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	(A) Amendments to various cells due to local authority errors (see Housing Benefits section).
CFB06	Pooling of Housing Capital Receipts	(A) Amendments to two lines due to North Lincolnshire Homes error.
RG33	Youthbuild	(A) Amendment due to arithmetic error.
RG33	Barton Waterside Visitor Centre	(A) Amendment due to arithmetic error.
RG33	South Humber Bank Heritage	(Q) Qualification letter issued due to incorrect classification of expenditure.
RG15	Land Reclamation Programme NEP Ph5	(Q) Qualification letter issued due to uncertainties over the eligibility of expenditure.

# Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Carry out the independent review as part of the compilation of the working paper file.	3	Independent reviewer not involved in the preparation of the claim	M Wedgewood 2 March 2009	This is an existing element within the Grant Protocol. All the claims audited had been independently reviewed. A further reminder stressing the importance of completing the review will be again sent to each Finance team.	S Cowlbeck by 31 March 2009
5	R2 Ensure any treatment of expenditure which varies from the guidance is supported by approval from the grant paying body.	3	Finance Officer who prepares the claim	M Wedgewood 2 March 2009	The grant claims co-ordinator will request that the Finance teams ensure written evidence is always obtained to support any variations to treatment of expenditure.	S Cowlbeck by 31 March 2009
6	R3 Ensure that all claims requiring certification are included on the grants register	3	Grant claims coordinator	M Wedgewood 2 March 2009	The grant claims co-ordinator will continue to liaise closely with the Finance teams to determine which of the claims they process will require auditing each year.	S Cowlbeck by 31 March 2009
7	R4 Benefits assessors must ensure that any Extended Payment Period for Council Tax Benefit are awarded correctly and don't overlap with Mortgage Interest Run On	3	Benefits Operational Manager	M Wedgewood 2 March 2009	Measures have been implemented to remind all assessment staff, through team briefings, of the need to take more care with such cases.	C Dyer by 28 February 2009

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# The Audit Commission

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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