

AGENDA ITEM: 7

Page nos. 32 - 52

Meeting	Audit Committee
Date	05 February 2009
Subject	External Audit Report on Grants Submission Process
Report of	Director of Resources & Chief Finance Officer
Summary	To consider the report from the external auditor on matters arising from the certification of the Council's grant claims.

Officer Contributors	Helen Gardiner, Head of Strategic Finance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Grants Report (22 December 2008)
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Helen Gardiner, Head of Strategic Finance on 020 8359 7172

1. RECOMMENDATIONS

- 1.1 That the matters raised by the external auditor relating to the grants submission and certification process be noted.**
- 1.2 That the officer response to the matters raised by the external auditors be noted.**
- 1.3 That the Committee consider whether there are any areas on which they require additional information or action.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee 27 February 2008 (External Audit Report on Grants Submission Process)**

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Corporate Plan includes an objective for a 'strong and supportive governance framework' within 'More Choice Better Value'.**

4. RISK MANAGEMENT ISSUES

- 4.1 Failure to have a robust process for the collation and submission of grant claims can place the receipt of external funding, which the Council is entitled to and has budgeted for, at risk.**

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 It is essential that the Council meets all requirements in securing grants so as to secure funding for services which benefit the whole community.**

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 The grants submission process is the final stage in the process for receiving external funds from third parties. As noted above, where there are weaknesses in the systems for monitoring and claiming these monies, these funds are potentially at risk.**
- 6.2 There are no specific staffing, ICT or property implications.**

7. LEGAL ISSUES

- 7.1 None in the context of this report.**

8. CONSTITUTIONAL POWERS

- 8.1 The terms of reference for Audit Committee includes consideration of the external auditor's annual letter, relevant reports, and report to those charged with governance.**

9 BACKGROUND INFORMATION

- 9.1 The Council receives substantial funds from external bodies that are used to support the delivery of its services. As part of the process of receiving these funds, the Council is required to submit periodic returns to the grant paying bodies which detail how the Council has utilised the monies received.
- 9.2 Under Audit Commission guidance, to provide assurance to the grant paying bodies, the Council's external auditor, Grant Thornton LLP, reviews and certifies all claims in excess of £100,000 after verifying that all the expenditure incurred by the Council qualifies under the terms and conditions of the grant. Grants under £100,000 do not have to be certified and only limited checks are required for grants between £100,000 and £500,000.
- 9.3 In 2007/08 8 claims and data returns to a value of £305m were certified within the required deadlines. The two most significant returns were the Housing Benefit and Council Tax Subsidy return at £177.2m and the National Non-Domestic Rates return at £87m.
- 9.4 The table below summarises performance in 2007/08 against best practice targets:

Performance Target	Best Practice	Performance 2005/06	Performance 2006/07	Performance 2007/08
Number of claims	N/A	20	11	8
Claims submitted on time	100%	65%	55%	100%
Claims amended	0%	44%	55%	38%
Claims qualified	0%	25%	40%	25%
Certified within deadline	100%	80%	91%	100%

- 9.5 The 2007/08 performance shows an improvement, particularly with regard to meeting submission deadlines. The number of claims and returns has decreased, however the claims remaining are those claims most prone to error due to their size and complexity.
- 9.6 There were two claims qualified in 2007/08. The National Non Domestic Rate Return (NNDR) and the Housing Revenue Subsidy Claim. The NNDR was qualified due to the late processing of a valuation office amendment. The amendment is question required a query to be raised with the valuation office and this delayed the update being processed. Procedures have now been implemented to ensure that this error is not repeated. The Housing Subsidy Return was qualified due to the incorrect exclusion of shared ownership dwellings from a field in the return. Procedures have been implemented to ensure that this is corrected in the next set of returns.

9.7 The grant fee for 2007/08 was £70,256, a reduction of £14,485 from 2006/07.

10. LIST OF BACKGROUND PAPERS

10.1 None

Legal: MM

CFO: JB

London Borough of Barnet

Grants Report 2007-08

22 December 2008

Contents	Page
1 Executive summary	1
2 Approach and context to certification	3
3 Summary findings	5

Appendices

- A Action plan**
- B Details of claims and returns certified in 2007-08**
- C Fee analysis**

1 Executive summary

1.1 Approach and context to certification

Grant Thornton UK LLP ("we") act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. This means that the arrangements for certification are prescribed by the Audit Commission, who agree the scope of the work with each relevant government department or agency. The roles and responsibilities for each party involved are clearly defined.

Section 2 of this report sets out an overview of the approach to certification work on grant claims and returns, the roles and responsibilities of the various parties involved and the scope of the work we perform.

1.2 Summary findings

Overall, the Council has improved its performance against key targets as a result of implementing most of the recommendations made in our 2006-07 Grants report. To improve arrangements for certifying grant claims and returns further, we have included four recommendations in the action plan in Appendix A.

All councils should work to submit all claims for certification to their auditors by the deadline set by the relevant government department and achieve no amendments or qualifications to those claims submitted. As auditors, we seek to certify all claims within the government department deadline, or three months from receipt if later.

The Council has performed well against these targets, with key points being:

- All grants claims that required certification were submitted on time.
- The quality of working papers provided to auditors has improved, with most claims and returns reconciling back to the general ledger.
- Key officers have been provided with training in preparation of claims and returns and the certification process.
- The grants co-ordinator liaised with the audit manager and grant compliers to ensure that work on the claims and returns was completed by the certification date.

Section 3 of this report sets out further details on performance against these targets. Appendix 2 also includes a detailed analysis by claim.

The budget for certification work set out in our Audit and Inspection Plan was £85,000. This was revised to £75,075 when we issued our detailed grants plan in July 2008. The actual fee we charged for this work was £70,265. Performance against the budget and prior year is set out in Section 3. Further details of variances against budget and the prior year fee are shown Appendix C.

1.3 Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and should not be used for any other purpose. No responsibility is assumed by us to any other person.

This report includes only those matters that have come to our attention as a result of performance of the certification. Our work is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, our grant certificate work does not ordinarily identify all such matters.

1.4 The way forward

Amendments and qualifications made to claims and returns can lead to repayment of funds to grant paying bodies, and perhaps reduced entitlement to grant funding in future years. Therefore, we would recommend that the Council takes steps to reduce the number of amended claims in future years.

In addition, taking action to address the recommendations made in the action plan in Appendix A will further improve the certification process, which will reduce the amount of work required. This will have the positive outcome of reducing certification fees in future years.

1.5 Acknowledgements

We would like to take this opportunity to thank the grants co-ordinator and the other Council's officers for their assistance and co-operation during the course of the certification process.

2 Approach and context to certification

2.1 Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission prescribes our work in this area. Each year, it agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instructions ("CI"). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return, and secondly a series of detailed tests.

In summary, the arrangements outlined in the Audit Commission's approach to grant certification are:

- for amounts claimed below £100,000 - no certification required;
- for amounts claimed above £100,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council; and
- for amounts claimed over £500,000 - certifying that the claim agrees to underlying records of the Council, and assessment of the control environment. Where reliance is not placed on the control environment, detailed testing is performed.

2.2 Roles and responsibilities

The following table briefly details the roles and responsibilities of the parties involved in the certification of claims and returns.

Party	Role and responsibility
Grant paying body	Sets conditions of grant, and deadlines for submission of pre-certificate and certified claims.
Audit Commission	Issue Certification Instructions.
Council	Submit claims for certification to the Appointed Auditors within grant paying body submission deadlines. Ensure documentation is maintained to support compilation of the claim.
Appointed Auditor	Certify claims submitted in accordance with Audit Commission Instructions and within certification deadlines.

2.3 Scope

The scope of this work is our assessment of the Council's arrangements for the submission of grant claims for certification purposes. It does not cover the overall arrangements put in place by the Council to:

- Ensure that it makes a claim for every area of eligible expenditure;
- Maximise the grant income received;
- Commit resources to manage the grant income cash-flow in an effective manner; or
- To performance manage both internal staff and third parties charged with these responsibilities.

3 Summary findings

3.1 Grant co-ordination

The Council has a grants co-ordinator, based in Finance Shared Services - Resources. They are our key point of contact when making arrangements to undertake our certification work. We are pleased to report that the Council has good procedures in place to identify grant claims and returns that require certification. To improve these arrangements further, we have included recommendations in the action plan in Appendix A. The Council's officers have included their intended actions to address these recommendations, and we will review progress against these as part of our grants certification work in late 2009.

The grants co-ordinator has kept us informed in advance of, and throughout, the certification process, particularly with regard to submission deadlines. We will continue to liaise with them in 2008-09 to ensure that all claims are received by the relevant deadlines, and in monitoring the implementation of recommendations and areas for improvement.

3.2 Performance against targets

The following table summarises the Council's performance against submission and accuracy targets.

Performance target	Target	Achievement in 2007-08		Achievement in 2006-07	
		No	%	No	%
Total number of claims	n/a	8	n/a	11	n/a
Claims submitted by Council deadline	100%	8	100	6	55
Claims certified by auditor deadline (or within 3 months of receipt if later)	100%	8	100	10	91
Claims certified without amendment or certification	100%	3	38	3	27
Claims amended	0%	3	38	6	55
Claims qualified	0%	2	25	4	36
Claims amended and qualified	0%	2	25	3	27

This analysis of performance against targets shows that:

- There has been an improvement in submitting grant claims and returns, with all being submitted to the auditor on time.

- As the Council's auditors, we are required to certify all claims and returns within 12 weeks of receipt of both the claim and a full set of working papers. It should be noted that it is the Council's responsibility to ensure that all statutory deadlines are met. This year, we certified all claims and returns within the certification deadline.
- There has been a reduction in the number of claims being amended. Some of the amendments to the claims and returns certified were minor by nature and that the absolute number of claims and returns amended has fallen. Furthermore, the claims and returns that require auditor certification are more complicated than those that no longer require auditor certification. There is a greater risk of error in compiling the more complicated claims and returns. An analysis of the claims and returns that were amended is given in Appendix B.
- We qualified two claims this year compared with four in the previous year. We are required to qualify whenever we feel that, based on the certification work which we have undertaken, the entries within the claim or return are not adequately supported by the Council's working papers such that we are not satisfied that the claim or return is actually correct. Government departments are entitled to withhold or withdraw payment to the Council of any monies that they feel, based on our qualification letters, are not adequately supported. The two claims qualified were the Housing Revenue Account Subsidy claim and the National Non-Domestic Rate claim. The Housing Revenue Account subsidy claim was qualified due to the incorrect exclusion of the shared ownership dwellings from a calculation of the number of dwellings in a field. This was also the reason for qualification in 2006/07. The National Non-Domestic Rate claim was qualified as one of the valuation office updates received on or before 31 January 2008 was not processed until after the year end.

Further details on each claim and return are set out in Appendix B.

3.3 Fee analysis

The estimated fee for grant certification work was set out in our Audit and Inspection Plan for 2007-08 approved by the Audit Committee in March 2007. This was revised in our Grants Plan agreed with officers in July 2008.

The fee charged for certification work in 2007-08, compared to the fee in 2006-07 and the budgeted fee, is set out below. Further analysis by claim, including variances, are included in Appendix C.

Claim	Fee in 2007-08	Budgeted fee 2007-08 per grants plan	Fee in 2006-07
Total	£70,265	£75,075	£84,750

The fee analysis reflects that:

- there has been a decrease in fees for the National Non-Domestic Rates grant claim due to changes in the Certification Instruction, which reduced the level of detailed testing required.
- there have also been decreases in fees across grant claims and returns in general due to improved arrangements.
- however, there has been an increase in the Housing Benefits and Council Tax grant claim as there was a change in the certification approach to housing benefit which was

introduced in 2007-08. The Audit Commission has produced a series of workbooks to make the certification and data recording for this claim consistent for all councils in England. As a result, fees for this work are also more consistent across London Boroughs. We note that the fee for this claim at this Council is still low compared with other London Boroughs.

- The Mental Health Grant and Children's Fund Grant were not required to be certified by the auditor in 2007-08.

A Action plan

No.	Claim	Recommendation	Priority	Management response	Responsibility & implementation date
1	All claims	Arithmetic checks should be undertaken on the claim or return to ensure that transposition or other calculation errors are identified prior to certification.	1	It is mandatory for all claims to be checked by the budget holder or service finance manager before submitting for CFO signature.	Compiler Prior to submission of completed claim to CFO for signature.
2	National non-domestic rates return - LA01	Ensure that all Valuation Office updates received on or before 31 January are processed prior to claim being prepared.	1	Agreed	Grants Co-ordinator After notification of certification visit.

No.	Claim	Recommendation	Priority	Management response	Responsibility & implementation date
3	All claims	The officers responsible for grant claims should inform the auditor and grants co-ordinator if key contacts are not available during the certification visit.	1	The grants co-ordinator maintains a register of grants and relevant key contacts. The grants co-ordinator will remind officers responsible for grant claims of the requirement to be available during the certification visit, once notification of the visit has been received from Grant Thornton	Grants Co-ordinator After notification of certification visit.

No.	Claim	Recommendation	Priority	Management response	Responsibility & implementation date
4	Teachers' Pension - PEN05	The HR Quality Manager should obtain letters of assurance from schools with external payroll providers to verify that the external payroll providers are only including pensionable items in the actual contributory salary figure. This should be obtained prior to the certification work commencing.	2	<p>In February 2008 schools with external payroll providers were asked to return letter's of assurance. Reminders were sent at the beginning of September to a few school's who failed to respond to the initial request and all letter's of assurance were received before the 2007/8 Teacher Pension Audit was complete.</p> <p>For the 2008/9 Audit a letter will be issued in February 2009 and earlier reminders will be sent in May and June. This should ensure that we receive the letters of assurance prior to certification work commencing in mid September.</p>	<p>Head of Human Resources, Shared Services</p> <p>June 2009</p>

B Details of claims and returns certified in 2007-08

Claim ref.	Claim title	Value of claim (£)	Amended?	Value of amendment (£)	Qualified?	Improvement area
BEN01	Housing Benefit & Council Tax Benefit Subsidy	177,250,469	Yes	Amendment did not have a financial impact on claim	No	None
CFB06	Pooling of Housing Capital Receipts	3,902,553	No	N/A	No	None
EYC02	General Sure Start	6,108,279	No	N/A	No	None
HOU01	Housing Revenue Account Subsidy	9,688,301	Yes	Unable to quantify due to the type of claim and amendments	Yes	See Appendix A for action plan
HOU02	Housing Subsidy Base Data Return	N/A	Yes	Amendment did not have a financial impact on claim	No	None
HOU21	Disabled Facilities grant	570,839	No	N/A	No	None
LA01	National non-domestic rates return	87,613,169	Yes	13,722	Yes	See Appendix A for action plan

Claim ref.	Claim title	Value of claim (£)	Amended?	Value of amendment (£)	Qualified?	Improvement area
PEN05	Teachers Pension return (x3)	19,879,444	Yes	Amendment did not have a financial impact on claim	No	See Appendix A for action plan

C Fee analysis

Claim ref.	Claim title	Month billed	Fee billed for 2007-08 (£)	Fee billed for 2006-07 (£)*	Variance (£)**	Budgeted fee per grants plan (£)	Variance (£)**
BEN01	Housing Benefit & Council Tax Benefit Subsidy	November 2008	36,140	28,063	(8,077)	29,250	(6,890)
CFB06	Pooling of Housing Capital Receipts	September 2008	4,485	5,750	1,265	4,875	390
EYC02	General Sure Start	October 2008	3,640	5,000	1,540	4,875	1,235
HOU01	Housing Revenue Account Subsidy	December 2008	5,460	5,312	(148)	4,875	(585)
HOU02	Housing Subsidy Base Data Return	October 2008	7,345	8,750	1,405	9,750	2,405
HOU21	Disabled Facilities grant	October 2008	2,795	5,250	2,455	4,875	2,080
LA01	National non-domestic rates return	September 2008	5,655	13,625	7,970	9,750	4,095

Claim ref.	Claim title	Month billed	Fee billed for 2007-08 (£)	Fee billed for 2006-07 (£)*	Variance (£)**	Budgeted fee per grants plan (£)	Variance (£)**
PEN05	Teachers Pension return (x3)	September 2008	4,745	6,250	1,505	6,825	2,080
TOTAL			70,265	78,000	7,735	75,075	4,810

Notes

* The total fee for grants in 2006-07 was £84,750. The difference is due to the Children's Fund grant (£3,562) and Mental Health Grant (£3,188) not being included on the prior year fee analysis as the requirement for auditors certification ceased in 2006-07.

** A positive variance shows that the fee was either lower than the prior year, the budget or both. A negative variance shows that the fee was higher than the prior year, the budget or both.



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