

AGENDA ITEM: 6

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Meeting	Audit Committee
Date	11 March 2010
Subject	Grants Report 2008/09
Report of	Interim Assistant Director of Finance
Summary	To consider the report from the External Auditors on the Council's management arrangements in respect of the certification process for grants.

Officer Contributors	Nickie Morris, Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Grants Report 2008/09
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Nickie Morris, Finance Manager (020 8359 7210) or Maria G. Christofi, Head of Strategic Finance (020 8359 7122).

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 05 February 2009 (External Audit Report on Grants Submission Process).

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Grants Report addresses fundamental aspects of management arrangements in Barnet, which relates to the Council's 'More Choice, Better Value' corporate priority.

4. RISK MANAGEMENT ISSUES

- 4.1 The Grants Report summarises Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process however it also draws attention to significant matters in relation to individual claims. Failure to address these matters 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 The Grants Report covers the arrangements in place for securing grants across services within the authority. This, in turn, impacts on all members of the community.

6. USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

- 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 therefore the External Auditor's comments and recommendations should be noted.

7. LEGAL ISSUES

- 7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including “To comment on the scope and depth of external audit work and to ensure it gives value for money”.

9. BACKGROUND INFORMATION

- 9.1 The Council submitted 12 grant claims and returns from government departments and other bodies requiring external audit certification in 2008/09, representing a claim value in excess of £324 million.
- 9.2 Under Audit Commission guidance, to provide assurance to the grant paying bodies, the Council’s External Auditor 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 The following performance is drawn to the attention of this Committee. It summarises the Council’s performance against key certification performance targets and prior year’s performance.

Performance measure	Target	Performance 2008/09	Performance 2007/08
Number of claims	N/A	12	10
Claims submitted on time	100%	83%	100%
Claims certified on time	100%	100%	100%
Claims amended by auditor	0%	33%	38%
Claims qualified by auditor	0%	17%	25%

- 9.3.1 The Council did not identify 2 claims, relating to grants received from the London Development Agency, until after the submission deadline had passed.
- 9.3.2 In 2008/09 2 claims were qualified, these were the Housing Revenue Account Base Data return and the Teachers’ Pensions London Academy return. Grant Thornton are required to qualify where they feel that, based on certification work which they have undertaken, the entries within the claim or return are not adequately supported by the council’s working papers such that they are not satisfied that the claim or return is correct.
- 9.3.3 The Housing Revenue Account Base Data return was qualified because the council was required to include information on shared ownership dwellings. The council is in the process of completing the spreadsheet with the view that the qualification can be lifted. Grant Thornton will undertake further work once this exercise has been completed. The Teachers’ Pensions London Academy return was qualified because there was no evidence that one of the teachers who had commenced work after 1 Jan 2007 had opted out of the scheme.
- 9.3.4 There has been a slight increase in the number of claims being amended,

however some of the amendments to the claims and returns certified were minor.

9.4 The grant fee for 2008/09 was £78,890 against a budget of £75,000. The actual fee was more than the budgeted as the budget was set before the Council identified the two London Development Agency claims.

9.5 The External Auditors commented that the quality of working papers provided to them were of a good standard. However, there were delays in providing additional information and supporting documentation requested in respect of the Housing Base Data Return and Housing Subsidy Return.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MM

Finance: AT



London Borough of Barnet

Grants Report 2008-09

February 2010

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Appendices

- A Approach and context to certification**
- B Details of claims and returns certified in 2008-09**
- C Action plan**

1 Executive summary

1.1 Introduction

The Council received 12 grant claims and returns from government departments and other bodies requiring external audit certification in 2008-09, representing a claim value in excess of £324 million.

Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

1.2 Approach and context to certification

We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

1.3 Key messages

A summary of all 12 claims and returns subject to certification is provided at Appendix B, together with the certification fee and outcome of our review. The key messages from our review are summarised in Table One below, and set out in detail in the section two.

Table One: Key Messages

Issues arising from our work	Action required
We qualified the returns relating to Teachers' pensions returns London Academy and HRA Subsidy base data return. Details of qualification are included in paragraph 2.4.	The Council should ensure that claims are prepared in compliance with the requirements of the specific scheme and the Certificate Instruction.

Arrangements for certification:

- amounts claimed below £100,000 - no certification
- amounts claimed between £100,000 - £500,000 - agreement to underlying records
- amounts claimed over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Issues arising from our work	Action required
Two of the claim forms, relating to grants received from the London Development Agency (LDA), were submitted to us after the submission deadline. As a result, one of the claims was certified after the certification deadline, although we complied with the requirement to certify claims within three months of receipt. Claims submitted or certified after the deadline could result in penalties, non-receipt of grant monies or potential repayment of grant monies.	The Council will need to ensure that it has adequate procedures in place to identify grant claims that need to be completed and that claims are submitted by the deadline.
The National Non-Domestic Rates Return includes bad debts within the losses of collection line. However bad debts were not approved in a timely manner in accordance with the Council's policy. This could result in the claim being qualified.	The Council should ensure bad debts written off are approved in a timely manner in accordance with its policy.
Four of the claim forms submitted for certification were amended.	The Council should undertake appropriate review to ensure claim forms submitted are accurate.
One claim form from 2005/06 was only certified in July 2009 due to delay in reconciling the claim partly due to systems and key officer changes.	The Council should ensure grants claims are effectively monitored until completion. Where significant delay occurs the claim should be escalated to Strategic Finance by the Grants Co-ordinator.

1.4 The way forward

We have made a number of recommendations to address the key messages highlighted and other findings arising from our certification work at Appendix C.

Implementation of the agreed recommendations will assist the council in compiling accurate and timely claims for certification. This will also, more importantly, reduce the following risks to the Council:

- non-receipt of grant monies;
- potential repayment of grant monies; and
- additional audit fees.

The use of resources assessment in 2009 required auditors to consider the results of certification work, including, in particular, the impact of housing benefit and council tax testing on data quality. The 2010 assessment will be further integrated with grant certification work, including consideration of the outcome of a wider range of grant claims.

1.5 Acknowledgements

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

Grant Thornton UK LLP

February 2010

2 Detailed findings

2.1 Introduction

This section of the report summarises the main issues arising from the certification of grants and returns in 2008-09. Further details of the individual grants that have been certified are provided at Appendix B with Appendix C setting out our recommendations and improvement opportunities arising from the certification of individual grants.

2.2 Performance against targets

Table Two summarises the Council's performance against key certification performance targets for the 12 claims and returns submitted in 2008-09 compared to 10 claims and returns in 2007-08:

Table Two: Performance against key certification targets

Performance measure	Target	Achievement in 2008-09		Achievement in 2007-08		Direction of travel
		No.	%	No.	%	
Number of claims submitted on time	100%	10	83	10	100	↓
Number of claims certified on time *	100%	11	100	10	100	→
Number of claims amended by the auditor	0%	4	33	3	38	↑
Number of claims qualified by the auditor	0%	2	17	2	25	→
Number of claims for which certification fee exceeded budget	0%	4	33	2	25	↓

* the certification deadline is that prescribed by the grant paying body as advised by the Audit Commission, or if a claim is received after the submission deadline, within three months of receipt. In one case we certified the claim after the deadline but within the three month period allowed.

This analysis of performance against targets shows that:

- The Council did not identify two claims, relating to grants received from the London Development Agency, until after the submission deadline had passed.
- It is the Council's responsibility to ensure that all claim deadlines are met. We are required to certify all claims and returns within three months of receipt of both the claim and a full set of working papers. Although we completed our work on the London Development Agencies claims within the three months period allowed after submission, these claims were not completed in accordance with the scheme deadline due to late submission by the Council.
- We qualified two claims this year as we did 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 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 Base Data return and the Teachers' Pensions London Academy return; and
- There has been a slight increase in the number of claims being amended. Some of the amendments to the claims and returns certified were minor. Furthermore, those claims and returns that require auditor certification are more complicated than those that no longer require auditor certification and there is thus a greater risk of error in compiling them. An analysis of the claims and returns that were amended is given in Appendix B. The Council should undertake appropriate review of grant claims before submission to ensure greater accuracy.

We charged a total fee of £78,890 against a budget of £75,000 for the certification of claims and returns in 2008-09. The actual fee was more than the budget as the budget was set before the Council identified the two London Development Agency claims. Details of fees charged for individual claims are included within Appendix B.

2.3 Management arrangements

Good arrangements are required for successful management of the certification of grant claims and returns. The results of our review of management arrangements are set out below. Associated recommendations for improvement are included at Appendix C.

Grants co-ordination

The Council has a grants co-ordinator, based in Finance Shared Services - Resources, who is our key point of contact when making arrangements to undertake our certification work and liaises with key officers on all grants claims and returns. The grants co-ordinator actively requests the Audit Commission's monthly Certification Instruction index which gives an up to date list of the claims and returns that need to be submitted by each Council and by what date.

From discussions with the Head of Strategic Finance, there appears to be lack of communication on qualification and amendment of grant claims between the Grants co-ordinator and Strategic Finance. The Grants co-ordinator should ensure that she notifies Strategic Finance of any claims qualified or amended.

Grants co-ordination could be further improved if services managers who are aware of new grants being received communicate the conditions and requirements of these grants as soon as they are aware to the co-ordinator. Service managers should also communicate with the Grants Co-ordinator those claims for which they are addressing auditor queries and

therefore will potentially not meet sign off deadlines so that the co-ordinator can keep Strategic Finance informed as to potential risks of non receipt of grant monies.

Compilation procedures

As part of our control environment and testing assessment we reviewed the compilation procedures for each claim or return. We generally found that the person compiling the claim has sufficient experience or if new to the role was given adequate supervision and guidance. Key officers have been provided with training in preparation of claims and returns and the certification process.

Quality of working papers

The quality of working papers provided to us is of good a standard. There were delays in providing us with additional information and supporting documentation requested in respect of the Housing Base Data Return and Housing Subsidy Return. Key officers should ensure that they are available to answer queries while we are on-site and that information requested is provided as soon as practical to ensure that there is no delays in completing our certification work which may also result in an increase of audit fees charged.

Sign off arrangements

The Acting Head of Strategic Finance at the time had delegated authority to sign off all grant claims. This allowed the certification process to run without unnecessary delays, as both he and the Interim Director of Finance were able to sign off the claims and returns.

Submission procedures

As agreed within the Grants Plan for 2008-09, the grants co-ordinator emails us an electronic copy of the signed claim or return once completed. During 2008-09 all but two claims and returns were submitted to us by the required deadlines.

Officer availability

We give the Council as much notice as possible of our proposed dates for the certification of each claim or return. Where these dates are not convenient for the Council, we are as flexible as possible in order to facilitate a successful certification process. For the majority of claims and returns we found officers to be helpful, co-operative and available as planned. However as set out above we experienced delays in receiving information in some cases.

Independent review

We found that not all grant claims and working papers had been subject to independent review. Such review is intended to provide assurance as to the accuracy of claims and returns and the Council should ensure that claims and working papers are independently reviewed.

2.4 Significant findings in relation to individual claims and returns

A summary of all claims and returns we have certified is attached at Appendix B, together with the certification fee and outcome of our review. The key issues arising from our work on specific claims are set out below and recommendations for improvement are set out in Appendix C.

RG31 - Single Programme LDA

The Council does not have adequate procedures in place to identify all grants which require certification and as a result did not identify two London Development Agency claims, relating to Barnet Youth offer and Aerodrome Road Carriageway works, which were due to be submitted to us by the 30 April 2009. It is the Council's responsibility to ensure that it meets all grant conditions, including ensuring that the claim is submitted by the deadline. These claims were submitted to us on the 23 July 2009 and the deadline for certification was

31 July 2009. As the Council's auditors, we are required to certify all claims and returns within three months of receipt of both the claim and a full set of working papers. We completed our work within this period but not before the scheme certification deadline due to late submission by the Council.

The Council should ensure that it has adequate procedures in place to identify grant claims that need to be completed and submitted by the deadline to ensure claims are certified by the required date.

HOU02 - HRA Subsidy Base Data Return

The Department of Communities and Local Government (CLG) issued a spreadsheet to help authorities calculate certain amounts included in the return. In order to complete the spreadsheet the council was required to include information on shared ownership dwellings. We noted that the Council had not reconciled the dwellings for 2008/09 and 2007/08 to the HRA Base Data Return claims for these years which is required to feed into the calculations. Further, the Council has not included the shared ownership transitional rent amounts for 2009/10 and previous years. Therefore we are unable to verify the accuracy of the figures in fields which were obtained from the CLG spreadsheet and the Housing Revenue Account Base Data return has been qualified.

The Council is in the process of completing the spreadsheet with the view that the qualification can be lifted. We will undertake further work once this exercise has been completed.

The Council should review guidance issued by the CLG and obtain information, where possible, of shared ownership dwellings to include within the spreadsheet.

HOU21 - Disabled Facilities Grant

As part of our testing we selected a sample of ten files to ensure that expenditure incurred was eligible. One of the files selected for testing could not be initially located, consequentially a further ten files were selected for testing to ensure this was an isolated missing file. This file was subsequently located after the further testing was completed. This resulted in additional fees being charged for the time spent on the additional testing.

Files should be stored in a central location to ease retrieval.

LA01 - National Non-Domestic Rates Return

Included within the losses in collections was an amount relating to bad debts written off during the year. The CI requires that all write-offs are properly approved in accordance with the authority's procedures. Write offs under £5,000 had not been authorised by the Director of Finance in accordance with the Council's procedures, although they were subsequently authorised by the Acting Director of Finance prior to the claim being certified. Write offs not authorised in a timely manner could result in the claim being qualified.

The Council should ensure that bad debts written off are approved in a timely manner in accordance with its own procedures.

PEN05 - Teachers' Pensions Return London Academy

We noted that for one of the teachers who had commenced work after 1 January 2007, there was no evidence that he had not opted out of the scheme resulting in the Teachers' Pensions London Academy return being qualified.

The Council should ensure that part-time employees, including supply teachers, are entered, and correctly classified on the system, assessed if eligible for teachers' pension and proof of teachers 'opting out' of the pension scheme is retained.

LEA 1/06 - Reimbursement by the Higher Education Funding Council for England of staff-related inherited liabilities

This claim has been outstanding since 2005-06. There were four areas of where action was required following our initial work, including eligibility to be in the scheme and reconciliation with the general ledger. The Council has taken 18 months to resolve these issues. There were significant delays in attending to these issues due to inability to reconcile the grant claim to the general ledger, due to a change in accounting systems and changes to responsible officers. The claim was certified in July 2009.

This claim highlights the need for the Council to ensure that grant claims are effectively monitored until completion and there is appropriate escalation where significant delay is experienced.

A Approach and context to certification

Introduction

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

The Audit Commission 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 Instruction (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 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 an assessment of the control environment. Where reliance is not placed on the control environment, detailed testing is performed.

Roles and responsibilities

The following table sets out the roles and responsibilities of the parties involved in the certification of claims and returns.

Party	Role and responsibility
Grant paying body	Sets grant conditions and the deadlines for submission of the pre-certificated and certified claim
Audit Commission	Issues certification instructions
Council	Submits claims and returns to the Appointed Auditor within grant paying body submission deadlines. Ensures adequate documentation is maintained to support compilation of claims and returns.
Appointed Auditor	Certifies claims in accordance with Audit Commission instructions and within certification deadlines.

Scope

We assess the Council's arrangements for submission of grant claims for certification. We do not review the Council's wider arrangements for managing external funding or maximising its entitlement to external funding.

B Details of claims and returns certified in 2008-09

Ref	Claim	Claim value (£)	Amended? Y/N	Amendment value (£)	Qualified? Y/N	Budgeted fee (£)	Actual fee (£)
BEN01	Housing Benefit & Council Tax Benefit Subsidy	189,542,517	Yes	54,452	No	32,000	27,735
CFB06	Pooling of Housing Capital Receipts	738,406	Yes	15,112	No	4,000	3,575
EYC02	General Sure Start	10,468,822	No	N/A	No	3,000	3,770
HOU01	Housing Revenue Account Subsidy	12,064,434	Yes	Amendment did not have a financial impact	No	4,500	5,785
HOU02	Housing Revenue Account Subsidy Base Data Return	N/A	No	N/A	Yes	10,000	10,270
HOU21	Disabled Facilities Grant	750,000	No	N/A	No	4,000	4,355
LA01	National Non-domestic Rates Return	91,412,573	No	N/A	No	9,000	6,370
PEN05	Teachers' Pensions Return (x3)	17,253,683	Yes	Amendment did not have a financial impact	Yes	8,500	8,450
RG31	Single Programme (LDA) (x2)	2,197,812	No	N/A	No	0	5,850
TOTAL		324,428,247		69,564		75,000	78,890

C Action plan

Ref	Claim	Recommendation	Priority	Management response and implementation details
1	Single Programme (LDA) - RG31	The Council should ensure that it has adequate procedures in place to identify grant claims that need to be completed and that they are submitted by the deadline.	1	The action taken to reduce the risk would be that Finance team need to ensure that they need to have all the grant conditions and ask the service for the ones that they have not received or informed of. They also need to ensure that key deadlines are met with all the working papers in order. Tess Glenday/ Karen Ali Immediate
2	HRA Subsidy Base Data Return - HOU02	The Council should review guidance issued by the CLG and obtain information, where possible, of shared ownership dwellings to include within the required spreadsheet.	1	The issue does not have an impact upon the grant, and has arisen due to a change in the Subsidy return. The authority is referring the data issue to DCLG. Gary Pliskin Immediate
3	Disabled Facilities Grant - HOU21	The Council should ensure that all case files are stored in a central location to ease retrieval.	3	Officers will endeavour to have all the relevant files and paper work available Andrew Milne/ Liz Gibbs Immediate

Ref	Claim	Recommendation	Priority	Management response and implementation details
4	National Non-domestic Rates Return - LA01	The Council should ensure bad debts written off are approved in a timely manner, in accordance with the Council's policy.	2	The action taken to reduce the risk would be that Finance team need to ensure that they need to have all the grant conditions and ask the service for the ones that they have not received or informed of. They also need to ensure that key deadlines are met with all the working papers in order. Tess Glenday/ Karen Ali Immediate

Ref	Claim	Recommendation	Priority	Management response and implementation details
5	Teachers' Pensions Return - PEN05	The Council should ensure that part-time employees, including supply teachers, are entered, and correctly classified on the system, assessed if eligible for teachers' pension and that the Council maintains proof of teachers 'opting out' of the pension scheme.	1	<p>The Council have automatic procedures in place that all part time/supply teachers are automatically entered into the Teachers Pension scheme UNLESS they choose to 'opt out'. Consequently review mechanisms have now been implemented of regular system reporting from the source system via regular system reports in relation to input data validation checks.</p> <p>Any teachers identified from the reporting now involve stringent manual validation checking in support of the necessary documentation as proof of the 'opting out' of the scheme and all documentation is kept securely.</p> <p>Annie Alexander/Simon Whittle On going</p>
6	Reimbursement by the Higher Education Funding Council for England of staff-related inherited liabilities - LEA 1/06	The Council needs to ensure grant claims are effectively monitored until completion and there is appropriate escalation where significant delay is experienced.	1	<p>A review of the grant completion and monitoring process was put in place, which will be built into regular directorate management reporting arrangements.</p> <p>Karen Balam Immediate</p>

Ref	Claim	Recommendation	Priority	Management response and implementation details
7	All claims	Key officers should ensure that they are available to answer queries while our audit team is on-site and that information requested is provided on a timely basis.	1	Key officers will ensure that they are either available or that there is a representative that is available. Karen Balam Immediate
8	All claims	The Council should ensure that claims and working papers are reviewed by somebody who has not compiled the claim, usually by a manager or somebody with more experience than the compiler. The Council should work to ensure fewer claims are amended in 2009/10.	2	This is usually the case, and officers shall endeavour to review the working papers Karen Balam Immediate
9	All claims	The Grants co-ordinator should ensure that she notifies Strategic Finance of any qualified or amended claims.	2	Procedures have been adopted to ensure that this process is followed Maria Christofi Immediate