

AGENDA ITEM: 9

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Meeting	Audit Committee
Date	17 February 2011
Subject	Grants Report 2009/10
Report of	Deputy Chief Executive & Chief Finance Officer
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	Maria Christofi, Assistant Director Financial Services, Finance Directorate Catherine Peters, Head of Finance SAP Systems, Closing and Compliance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Grants Report 2009/10
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Catherine Peters, Head of Finance (020 8359 7142)

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 11 March 2010 (External Audit Report on Grants certification).

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 'Better Services with Less Money' corporate priority.

4. RISK MANAGEMENT ISSUES

- 4.1 The Grants Report 2009/10 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 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 11 grant claims and returns from government departments and other bodies requiring external audit certification in 2009/10, representing a claim value in excess of £360 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 £125,000 after verifying that all the expenditure incurred by the Council qualifies under the terms and conditions of the grant. Grants under £125,000 do not have to be certified and only limited checks are required for grants between £125,000 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 2009/10	Performance 2008/09
Number of claims	N/A	11	12
Claims submitted on time	100%	91%	83%
Claims certified on time	100%	100%	100%
Claims amended by Auditor	0%	45%	33%
Claims qualified by auditor	0%	18%	17%

- 9.3.1 Overall the Council’s performance in preparing claims and returns has slightly deteriorated since 2008/09.
- 9.3.2 In 2009/10 2 claims were qualified, these were the Housing Revenue Account Base Data return and the General Sure Start 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 has now received confirmation that these properties do not need to be included in the return going forward. Therefore in future the claim will not be qualified in respect of these shared ownership properties. The Sure Start return was qualified because it included expenditure relating to prepayments despite the guidance stating that this should be excluded.

- 9.3.4 There was an increase in the number of claims and returns that were submitted with amendments or qualifications, with some of the amendments being minor and others as a result of the Council not following the claim guidance.
- 9.4 The grant fee for 2009/10 was £74,760 against a budget of £75,000.
- 9.5 The External Auditors found the quality of working papers to be of a generally good standard. However there were delays in providing additional information and supporting documentation requested in respect of the Teachers Pension Claim and the Disabled Facilities Grants. In addition working papers relating to the Pooling of Capital Housing Receipts were not clearly referenced.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal: MM
CFO: MC/JH

London Borough of Barnet

Certification work report 2009/10

3 February 2011

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1 Introduction and approach

Introduction

- 1.1 Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As London Borough of Barnet's (the Council) external auditors, Grant Thornton undertakes certification work at the Council, acting as an agent of the Audit Commission.
- 1.2 The Audit Commission makes certification arrangements with grant-paying bodies, this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

Certification arrangements

- 1.3 The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2009/10 were:
- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions;
 - for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but were not required to undertake any testing of the eligibility of expenditure or data; and
 - for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.
 - In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work.

Our certificate

- 1.4 Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:
- without qualification;
 - without qualification but with agreed amendments incorporated by the authority; or
 - with a qualification letter (with or without agreed amendments incorporated by the authority).
- 1.5 Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

2 Results of our certification work

Key messages

- 2.1 For the financial year 2009/10, we have certified eleven claims and returns for the Council, which amounted to £360m. This represents both funding claimed by the Council and returned to grant-paying bodies, as well as other financial information.
- 2.2 The Council's performance in preparing claims and returns is summarised in the table below.

Exhibit One: Performance against key certification targets

Result	Number in 2009/10	Number in 2008/09	Compared to last year
Without qualification	4	6	Some deterioration
Without qualification but amended	5	4	Some deterioration
Qualified	2	2	Same
Total	11	12	

- 2.3 This demonstrates that overall the Council's performance in preparing claims and returns has slightly deteriorated since 2008/09. There has been an increase in the number of claims and returns that were submitted with amendments or qualifications, with some of amendments being minor and others as a result of the Council not following the claim guidance. The Council should undertake appropriate review of grant claims and returns before submission to ensure greater accuracy.
- 2.4 We qualified two claims this year as we did in the previous year. We are required to qualify whenever we think 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 General Sure Start return.
- 2.5 Details on the certification of all claims and returns are included at Appendix A. Where we have concluded that an item is significant, further details are included below in this section of our report.

- 2.6 Where claims and returns have been amended or qualified and we have identified opportunities for improvement in the compilation in future years, we have made recommendations to support the Council's continuous improvement. These are included in the action plan in Appendix B.
- 2.7 The Council's and our performance in meeting deadlines related to the certification of claims and returns is summarised below.

Exhibit Two: Performance against deadlines

Deadline	2009/10	2008/09	Direction of travel
Submitted by deadline	10 (out of 11)	10 (out of 12)	→
Certified by deadline	11 (out of 11)	12 (out of 12)	→

- 2.8 The Council submitted all of its claims and returns on time with the exception of one. This claim related to the grant received from the London Development Agency for the Barnet Youth Offer (RG31). We certified all of the claims and returns within the relevant deadlines set by the Audit Commission.
- 2.9 During the year, we carried out training for key officers to ensure they were aware of the how claims and returns are prepared and the certification process. The Council will need to ensure that all claims and returns are submitted to us within the required deadlines. This will enable us to continue to meet all the certification deadlines.

Certification work fees

- 2.10 Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Exhibit Three: Hourly rates for certifying claims and returns for 2009-10

Role	2009/10	2008/09
Engagement lead	£380	£365
Manager	£210	£200
Senior auditor	£135	£130
Other staff	£105	£100

- 2.11 Our fee for certification work at the Council in 2009/10 was £74,760 compared to £78,890 for 2008/09. Our fee is in line with our estimate of £75,000 included in our Grant Claims and Returns Planning Memorandum 2009/10, dated 23 August 2010. Details of our fee by claim and return and how this compares to last year are included at Appendix C.

Management Arrangements

- 2.12 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

- 2.13 The Council has a grants co-ordinator, based in the Finance Directorate, 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. We send the grants co-ordinator the monthly Audit Commission's 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.
- 2.14 There was an action raised in 2008/09 report around communication between the Grants Co-ordinator and the Finance Team. In September 2010 the Council revised its internal reporting structure for grant certification in order to improve the process.

Compilation Procedures

- 2.15 As part of our control environment and testing assessment we reviewed the compilation procedures for each claim or return. We generally found the person compiling the claim has sufficient experience. Key officers have been provided with training in preparation of claims and returns and the certification process.

Quality of working papers

- 2.16 The quality of working papers provided to us were generally of a good standard. However, in respect of the Teachers Pension Claim and the Disabled Facilities Grants we experienced some delays in receiving the additional information and supporting documentation requested.
- 2.17 A further issue was noted in respect of the Pooling of Capital Housing Receipts claim where the compiler of the 2009/10 claim had subsequently left the council. We noted that these working papers were not clearly referenced, which made it difficult to complete the certification work on the claim.
- 2.18 Key officers should ensure that working papers are clearly referenced, and that information requested is provided as soon as is practical. They should also ensure that there are no delays in completing our certification work, which may result in an increase of audit fees charged.

Submission procedures

- 2.19 As agreed within the Grants Plan for 2009/10, the Grants Co-ordinator emails us an electronic copy of the signed claim or return once completed. During 2009/10 all but one claim was submitted to us by the required deadlines (RG31 as mentioned

above). The claim had been identified by the Council and officers were aware that they were required to submit the claim to us by the deadline. However, this was not achieved and the completed claim was submitted after the deadline. The Council will need to ensure that all claims and returns are submitted to us within the required deadlines.

Officer availability

- 2.20 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 in paragraph 2.16, we experienced delays in receiving information for the Teachers Pension Claim and the Disabled Facilities Grants.

Significant findings in relation to individual claims and returns

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

RG31- Single Programme LDA

- 2.22 The Council submitted the grant return for the London Development Agency relating to the Barnet Youth Officer after the submission deadline. This was due to be submitted to us by the 30 April 2010. It is the Council's responsibility to ensure that the claim is submitted by the deadline. This claim was submitted to us on 6 May 2010 and certification work completed and the claim certified by the deadline of 30 June 2010.
- 2.23 As mentioned above, the Council will need to ensure that all claims and returns are submitted to us within the required deadlines to enable us to certify these claims and returns by the deadline.

CFB-06 Pooling of Capital Housing Receipts

- 2.24 As part of our certification work, there were several instances in the pooling of Capital Receipts whereby guidance from the Department of Communities and Local Government had not been correctly followed. The following are instances in which the Council did not follow the guidance:
- a case was identified where lease extensions had been included as part of the pool but per the CI this is not necessary.
 - a case was identified where income was included as an allowable deduction; this treatment is incorrect as in accordance with the CI, properties sold to buyers who intend to subsequently live in the property do not count as allowable deductions.
 - the capital receipts reduced for the cost of buying back dwellings had also been calculated incorrectly.

- 2.25 The Council should ensure that it makes full use of guidance (including references to further material) provided by the Department of Communities and Local Government and the Audit Commission when preparing all claims and returns.

EYC-02 General Sure Start

- 2.26 As part of our certification work, we noted that expenditure relating to prepayments had been included in 2009/10, despite the guidance stating that this should be excluded when preparing the above claim. Our sample was extended for the test and we identified similar errors. This resulted in the claim being qualified. The Council should ensure that all key staff preparing and compiling claims and returns are aware of the conditions attached to them. This will aim to ensure that claims and returns are not qualified.

HOU-02 - HRA Subsidy Base Data

- 2.27 As noted in previous years the 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 and the shared ownership transitional rent amounts for 2009/10 and previous years. This information is not available and therefore we are unable to verify the accuracy of the figures in fields which were obtained from the CLG spreadsheet. Therefore, the Housing Revenue Account Base Data return has been qualified.

- 2.28 The Council had contacted the CLG to query if this would be an on-going issue. The Council received confirmation, after we had certified the claim, stating that these properties do not need to be included in the return going forward. Therefore in the future, the claim will not be qualified in respect of these shared ownership properties.

LA01 - National Non-Domestic Rates Return

- 2.29 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 included on the claim were authorised by the Director of Finance however not in a timely manner. The claim was prepared and submitted in June 2010 and the write offs were authorised in September 2010.

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

Acknowledgements

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

Grant Thornton UK LLP
3 February 2011

A Details of claims and returns certified for 2009/10

Claim or return	Value (£)	Amended?	Qualified?	Summary
Housing and council tax benefit scheme - BEN01	221,177,067	Y	N	Return fairly stated and in accordance with terms and conditions, except for an amendment. The amendment was relating to the reconciliation and did not have an effect on the amount claimed.
Teachers' pensions return x3 - PEN05	23,016,298	Y	N	The Council prepares three claims relating to the Teachers' Pension of which only one was amended. Returns fairly stated and in accordance with terms and conditions, amendments were required as a result of reconciliation differences noted in respect of pension contributions relating to the Council's claim.
Disabled facilities - HOU21	861,000	Y	N	Return fairly stated and in accordance with terms and conditions, except for an amendment which was due to the Council incorrectly using a 60:40 split for funding of expenditure. This is no longer applicable for 2009/10 as per the certification instruction.
HRA subsidy - HOU01	10,247,061	Y	N	Return fairly stated and in accordance with terms and conditions, except for an amendment to reflect the actual capital expenditure instead of the forecast.

Claim or return	Value (£)	Amended?	Qualified?	Summary
Single Programme LDA - RG31	395,624	N	N	Return fairly stated and in accordance with terms and conditions, with no amendments or qualifications required.
General Sure Start - EYC02	11,063,811	Y	Y	Return fairly stated and in accordance with terms and conditions, except for qualification and amendment with regard to the incorrect inclusion of prepayments for training courses for 2010/11. As described in paragraph 2.26 above.
Pooling of housing capital receipts - CFB06	889,042	Y	N	Return fairly stated and in accordance with terms and conditions, except for amendments which related to issues noted in paragraph 2.24.
HRA subsidy base data return - HOU02	N/A	Y	Y	Return was qualified and amended as mentioned in paragraph 2.27 and 2.28 above.
National non-domestic rates return - LA01	92,243,706	N	N	Return fairly stated and in accordance with terms and conditions, with no amendments or qualifications required.
Total	359,893,610			

B Action plan

No	Claim or return	Recommendation	Priority	Management response , officer responsible and deadline for implementation
1.	Single Programme (LDA) RG31	The Council should ensure that all claims and returns are submitted to us within the required deadlines.	High	The action taken to ensure that claims are submitted by the deadlines would be for the Finance team to ensure that those submitting claims are notified of the key deadlines Head of Youth & Connexions Service/Claims Co-ordinator Immediate
2.	Capital Housing Receipts CFB-06	The Council should ensure it makes full use of guidance (including references to further material) provided by CLG and Audit Commission when preparing all claims and returns.	High	The action taken is that the Finance team ensures that those completing the claim are clear about the guidance relating to the completing the Pooling return. Finance Manager (PHR & E&O) Immediate

No	Claim or return	Recommendation	Priority	Management response , officer responsible and deadline for implementation
3.	General Sure Start - EYC02	All staff who are involved in compiling and preparing the claim should be made aware of the conditions of the claim. There should also be review of this process so that errors are minimised.	Medium	<p>The Finance team will ensure that officers responsible for compiling and preparing the claim have the grant conditions prior to completing the claim and that this is reviewed independently of the person submitting the claim to minimise any errors prior to submission</p> <p>Finance Officer (BRSI)/Head of BRSI Immediate</p>
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.	Medium	<p>The action taken is for the write off report to be prepared around the time that the claim is submitted to ensure that it is approved in a timely manner.</p> <p>Head of Revenues & Benefits Immediate</p>

No	Claim or return	Recommendation	Priority	Management response , officer responsible and deadline for implementation
5.	All Claims	Key officers should ensure that working papers are referenced and that information requested is provided on a timely basis.	Medium	<p>Officers will endeavour to have all relevant files and paperwork referenced and available.</p> <p>With regards to the Teachers' pensions return, external schools will be notified of a deadline for submitting information once the date for the audit of this claim has been agreed.</p> <p>Finance Manager (PHR & E&O)/Pay & Data Services Manager/Environmental Health Manager (Residential)</p> <p>Immediate</p>

C Certification work fees

Claim or return	Fee 2009/10 (£)	Fee 2008/09 (£)	Explanation for significant variances
Housing and council tax benefit scheme - BEN01	25,033	27,735	Slight reduction due to efficiencies.
Teachers' pensions return x3 - PEN05	12,673	8,450	Increase year on year as a result of delays experienced in receiving information requested.
Disabled facilities - HOU21	4,443	4,355	No significant difference year on year.
HRA subsidy - HOU01	5,500	5,785	No significant difference year on year.
Single Programme LDA- RG31	1,037	5,850	The fee in 2008/09 was for two claims whereas in 2009/10 we were only required to certify one. There were also efficiencies made in completing the certification of the claim.
General Sure Start - EYC02	3,813	3,770	No significant difference year on year.
Pooling of housing capital receipts - CFB06	4,285	3,575	Slight increase as a result of issues and delays, resulting in extra required to complete certification of claim.

Claim or return	Fee 2009/10 (£)	Fee 2008/09 (£)	Explanation for significant variances
HRA subsidy base data return - HOU02	9,903	11,350	Slight reduction due to efficiencies.
National non-domestic rates return - LA01	5,840	6,370	Slight reduction due to efficiencies.
Cost of reporting to those charged with governance	2,233	2,730	Slight reduction due to efficiencies.
Total	74,760	79,970	

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