

# Grant Claim Certification Report

City of York Council

Audit 2007/08

June 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 Under section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants or subsidies received by the Council. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements, and the auditors act as agents of the Commission in this respect. This is a different relationship to that which exists from the audit work under the Code of Audit Practice.
- 2 Good practice in the preparation of grant claims and returns is set out in the '*Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and auditors in relation to grant claims and returns*', as published by the Audit Commission. This document summarises the framework under which the Audit Commission makes certification arrangements and to assist authorities by summarising the extent of their responsibilities.
- 3 The grant claims we certify range from highly complex multi-million pound schemes, to more straightforward reimbursements of pre-approved expenditure. In 2007/08, the value of the grant claims and subsidies we certified was £142m.
- 4 Certification work is designed to provide assurance to the grant paying body that, for example, a grant claim is fairly stated and in accordance with specified terms and conditions. We reach a 'conclusion' on each grant claim or return and set out any matters to report to the grant paying body within a qualification letter.
- 5 The certification regime is outside our Code of Audit Practice responsibilities and as such the work we do is charged on an hourly basis. In order to minimise the cost of certification, all authorities should implement the following actions.
  - Provide comprehensive working papers that fully support the grant claim or return.
  - Demonstrate that there is an effective control environment in place to ensure the grant claim or return was prepared in line with the relevant terms and conditions.
  - Implement a robust quality assurance regime to ensure timely submission of well supported grant claims and returns.

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## Audit approach

- 6 The Audit Commission takes a risk based approach to the certification of grant claims.
- 7 For grant claims and returns below a de minimis amount set by the Commission (currently £100,000), the Commission will not make certification arrangements, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions.

- 8 For grant claims and returns between the de minimis amount and a threshold to be set by the Commission (currently £500,000), auditors will undertake limited tests to agree entries on the grant claim or return to underlying records.
- 9 For grant claims and returns above £500,000, the control environment for the preparation of the grant claim will be assessed. Where the control environment can be fully relied upon auditors will undertake a reduced level of testing.

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## Main conclusions

- 10 Overall our findings show general improvements from the previous year. Fewer grant claims have been subject to amendment or qualification, and more submission deadlines were met by the council. However, there are still improvements that can be made to improve the council's approach to producing the grant claims and returns. In particular, the council should:
- prevent inconsistencies in the approach taken to preparation of working papers;
  - avoid grant claim submission deadlines being missed; and
  - ensure key staff are available to answer auditor queries.
- 11 The consequence of these inconsistencies is that our time, and therefore the fee we charge, has been higher than planned, as shown below.

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**Table 1**

	£
Original budgeted grant fee	50,000
Revised budgeted grant fee	43,062
Actual grant fee	45,869
Fee variance	2,807

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- 12 The total proportion of grant claims which missed the submission deadline has decreased from the previous year, with 4 out of 15 grant claims being submitted late this year (27 per cent) as opposed to 11 out of 18 in 2006/07 (61 per cent). Whilst this is a clear improvement, the grant claim submission deadlines are known well in advance, and grant claims should only be submitted late in exceptional circumstances. There are still instances where grant claim are not submitted on time and where there is no communication with us to inform of us of the delay and the likely date when the grant claim is to be submitted.
- 13 The number and proportion of grant claims qualified or amended has decreased substantially from 2006/07. The proportion of grant claims qualified has also decreased from the 2005/06 level. This represents good progress.

## Summary report

**Table 2** Amended or qualified grant claims over the last three years

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
% of claims amended	21	44	40
% of claims qualified	39	44	27

- 14** In total, 15 grant claims were subject to audit certification in 2007/08, a reduction from 18 in the previous year. Set out below are our specific findings and recommendations arising from the 2007/08 certification work.

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# Detailed report

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## Assessment of the control environment

- 15 The starting point for our certification work for every grant claim is our assessment of the control environment in place for the preparation and compilation of each grant claim or return.
- 16 A strong control environment provides the responsible finance officer with assurance that the grant claim or return they sign is accurate and complies with the grant claim or return terms and conditions.
- 17 Where we are able to place reliance on the control environment for a specific grant claim or return, we will reduce the level of testing that we are required to perform.
- 18 In 2007/08 we assessed that the control environment could not be relied upon for 10 of the 15 grant claims submitted for certification (66 per cent). The main reasons why we could not place reliance on the control environment were:
  - previous record of amendment and/or qualification on the grant claim/return;
  - inadequate working papers to support the grant claim/return;
  - lack of information provided to detail how the grant claim/return was compiled and the quality monitoring processes in place; and
  - the inherent complexity of the grant claim/return.

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## Qualifications and amendments

- 19 The number of grant claims requiring amendment following certification work fell from 8 (44 per cent) in 2006/07 to 6 (40 per cent) in 2007/08.
- 20 The reasons for amendment in 2007/08 were:
  - simple arithmetic errors, which we would expect to have been picked up during pre-audit submission QA review;
  - simple presentational errors, which we would expect to have been picked up during pre-audit submission QA review;
  - specific terms and conditions not being complied with; and
  - complex grant terms, and complex systems being used to produce the claims.

## Detailed report

- 21 We recommended last year that the internal quality monitoring procedures be improved to prevent errors stemming from inadequate peer review affecting claims in the future. For example, we would expect there to be systematic procedures to check the arithmetic on each grant claim/return prior to submission to us. We would also expect the responsible officer to ensure that all entries or amendments on the grant claim or return are fully supported by detailed working papers. We would expect a strong culture of review, to ensure that presentational issues do not appear on final grant claims or returns submitted to us. Finally, we would also expect there to be robust procedures designed to identify and entries on the claim or return that do not meet the specific terms and conditions relevant to it.
- 22 It is clear from the reasons for amendment listed above that further work needs to be undertaken on this. An example 'checklist' which could be adopted by the council has been included as Appendix 4 to this report.
- 23 The number of grant claims and returns qualified has reduced from 8 (44 per cent) in 2006/07 to 4 (27 per cent) in 2007/08.
- 24 A full list of the reasons for amendments and qualifications is at Appendix 1.

### Recommendations

- |                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>R1</b> Review the reasons why grant claims or returns have been amended and/or qualified, to ensure that these issues are not repeated in the future.       |
| <b>R2</b> Implement standardised internal quality monitoring procedures within the Council to address the issue of amendments stemming from inadequate review. |

### Timeliness of claims and returns submissions

- 25 The timely submission of grant claims and returns to the audit team is vital to planning the work and ensuring that nationally set certification deadlines are met. Failure to meet certification deadlines can lead to the suspension of payments or the withholding of grant income.
- 26 Councils with a strong track record of meeting submission deadlines set an internal timetable for working paper files to be prepared by the responsible accountant, so that the file can be reviewed in time to meet the submission deadline.
- 27 In 2007/08, three grant claims and returns (20 per cent) were submitted after the deadline set by the relevant grant paying body. This is a decrease from 61 per cent in the previous year. The table below sets out the grant claims and returns that were submitted late for certification.
- 28 There has clearly been good progress in this area, although the submission deadlines are set well in advance, so we would expect further improvements in years to come.

**Table 3 Grant claims and returns submitted late**

CI Ref	Claim Title	Required submission date	Actual submission date	Number of days late in 2007/08
EYC02	General sure start grant	30 May 2008	19 September 2008	112
LA01	National non-domestic rates return	27 June 2008	17 July 2008	20
RG33	Yorkshire Forward - Science City	30 June 2008	15 August 2008	46

- 29** In particular, the lateness of the SureStart grant submission is significant and this was also submitted late in 2006/07 (submitted 35 days late). We would also have expected this to be a particular priority considering the problems we encountered with this grant claim last year, coupled with the high value of this claim (£6.5m).
- 30** Although we were informed that some of these grant claims were going to miss the submission deadline, this wasn't the case for all late submissions. Where we are not informed of potential delays to submission there is a risk that we will not have sufficient time to complete our work and the certification deadline may be missed.
- 31** Late submission of grant claims or returns has a knock-on effect in terms of auditor submission dates also potentially not being met. This is exacerbated when key contacts for the grant do not make it a priority to respond promptly, accurately and comprehensively to auditor queries.
- 32** It is important for the Council to be aware of the impact of auditor queries not being given high priority, particularly where a late grant claim or return is involved. These impacts can include funding potentially being cut by funding bodies. Although the SureStart grant claim was originally submitted to auditors 112 days late, as a result of the complications described above the grant was finally certified 151 days late.

### Recommendations

- R3** Review reasons why grant claims and returns were not submitted by the deadline date, and implement measures to avoid these deadlines being missed in future years.
- R4** Ensure that auditors are made aware as soon as it is likely that a submission date is not going to be met.
- R5** Prioritise the response to audit queries on grant claims so that audit deadlines are not unnecessarily missed.

### Quality of Working Papers

- 33** The quality of working papers provided last year was identified as a key area where improvements could and should be made by the council.
- 34** The Statement of Responsibilities outlines the working paper requirements expected by the Council. Briefly, these state that grant claims and returns should be supported by adequate working papers which:
- satisfy the statutory requirement on the Chief Financial Officer to maintain adequate records in relation to grant claims and returns;
  - document the basis of the grant claim or return and the derivation of the information it contains; and
  - are kept in a form which will help the auditor and reduce certification time and, in consequence, the cost of the audit to the council.
- 35** The expected contents of a quality working paper file to support a grant claim or return have been provided at Appendix 2. This is an indicative list of the types of documents that should be provided and is not exhaustive. Our expectations in terms of the standard of working papers are set out in Appendix 3.
- 36** This year the standard of working papers was largely unchanged from 2006/07. Working paper quality is still variable across the different grant claims and returns.
- The working papers for a number of grant claims and returns were assessed as being of fair quality, although improvements could be made. Some of the grant claims (eg the Yorkshire Forward grant claims) had working papers provided which included aspects of best practice and were assessed as being 'good'.
  - The working papers provided in support of the SureStart grant claim were assessed to not be meeting the working paper requirements as set out in the Statement of Responsibilities.
  - The working papers provided in support of the remainder of the grants and returns were assessed as being of fair quality although improvements could be made.
- 37** An immediate improvement which could be made would be to complete a pre-audit checklist in all cases, and incorporate this into the pre audit QA process. This would help provide assurance to the responsible officer signing the claim form that the claims are right. An example pre-audit checklist which could be adopted is shown at Appendix 4.
- 38** Evidence from other authorities shows that the introduction of a standardised approach to the preparation of working paper files has helped to reduce the number of grant claims amended and/or qualified, reduce the number of grant claims submitted late, and increase the overall quality of supporting working papers thus reducing fees.

**Recommendations**

- R6** When compiling a working paper file, ensure that all entries on the grant claim or return are fully supported within a working paper file dedicated to the grant claim or return.
- R7** Ensure that good practice in the preparation of working paper files is disseminated throughout the Council to raise overall standards.
- R8** Implement a standardised approach to the preparation of working paper files across each Directorate. Use of the Pre-audit checklist, shown at Appendix 4, could be one way of doing this.
- R9** Ensure that internal quality monitoring processes are operating effectively so that all working paper files are reviewed prior to submission to the audit team for certification. Use of the Pre-audit checklist, shown at Appendix 4, could be one way of doing this.

# Appendix 1 – Qualification and amendments list

Claim Ref.	Claim Title	Reason for amendment (A) and/or qualification (Q)
BEN01	Housing and Council Tax Benefits Scheme	(A): Amendments to various cells in the return due to a mix of system and Council errors. (Q): Qualified due to the extent of errors found, and the DWP requirement to qualify where anything less than 100 per cent of cases in a cell have been tested.
HOU01	Housing Subsidies and Grants	(A): Amendment to one cell in the grant which did not agree to the 2007/08 financial statements.
LA01	National Non-Domestic Rates Return	(Q): Qualified as an incorrect rateable value had been used on the NNDR system, resulting from a misinterpretation of a schedule issued by the Valuations Office.
PEN05	Teachers Pension Return	(A): Amended due to an arithmetic error on the claim, and also as the claim did not agree with council payroll records.
RG33	Yorkshire Forward - Science City	(A): Amended due to an arithmetic error. (Q): Qualified as the approved amounts included on the claim did not agree with the approved figures issued by Yorkshire Forward.
RG33	Yorkshire Forward - City Centre Partnership	(A): Amended as one of the figures used did not agree with the working papers.
EYC02	General Sure Start Grant	(A): Amended as the figure used for the 'Revenue' block did not agree to council ledger accounts. (Q): Qualified as insufficient records were kept to support the inclusion of some expenditure in this years grant return.

# Appendix 2 – Contents of a quality working paper file

- 1 The key to preparing a quality claim file is for the preparer to note the requirements set out in the Certification Instructions (CI). Each CI contains details of all testing to be carried out and from this the preparer should be able to ascertain the sort of evidence and documentation that we will require in conducting our certification work.
- 2 As a guide, the following is a list of minimum levels of documentation that we would expect to see on a high quality working paper file to support a grant claim.

## Non-financial information

- Contents Page
- Description of the processes involved in ensuring the terms and conditions of the claim are met – what are the internal control procedures in place?
- Original grant approvals/correspondence.
- Variations to grant approvals.
- Tendering information including evidence that contracts were awarded in line with standing orders or claim requirements.
- A copy of the final claim fully referenced to the sections of the file that support individual entries on the claim form.

## Financial information

- Copies of asset registers where required by the certification instructions.
- Copies of interim claims where applicable.
- Reconciliation of all income and expenditure to working papers and ledger prints.
- Details of income received to date including ledger prints and remittance advices.
- A narrative explanation of any expenditure apportionment.
- Details on match-funding received including evidence to support receipt.
- Where charges for in-house staff time have been claimed, details of the number of hours charged and the rate per hour should be agreed to individual payroll records to support the amount claimed.

# Appendix 3 – Working paper characteristics

- 1 Working papers should be produced to support all entries on the claim or return. Each working paper should:
  - clearly agree to the entry on the claim or return;
  - demonstrate how any calculations within the working paper have been produced;
  - contain explanations of what the working paper is showing where not obvious to a person unfamiliar with the system used to generate it;
  - be supported to relevant screen prints or ledger prints;
  - contain clear references to other working papers that are relevant to the entry on the claim or return; and
  - be fully indexed.

# Appendix 4 – Example checklist

**Table 4** Example pre-audit checklist

<b>Working Paper Check</b>	<b>Yes/No</b>	<b>Initials and Date</b>	<b>Working paper ref:</b>
Ensure that all relevant parts of the claim have been completed.			
Ensure that the correct form been used.			
Ensure that the arithmetic right on the claim form.			
Ensure that each figure is supported by clear working papers with adequate cross-referencing.			
Compare claim entries to previous period and ensure explanations for unusual/significant variances are documented.			
Ensure that copies of all grant approvals and variations/relevant correspondence with the grant paying department are included on the file.			
Ensure that the claim entries for all income and expenditure reconcile to relevant working papers and ledger prints, and that these are included on the working paper file. Ensure that all accounts are reconciled at the claim date.			
Ensure that all income received to date is supported by remittance notes and ledger prints.			
Ensure that there is evidence to support any expenditure apportionment.			
Ensure that tendering information is included on the file, including evidence that contracts were awarded in accordance with Standing Orders or with claim requirements.			
Ensure that the debtor/creditor account agrees with the claim and advances.			
Ensure that payments on account are those received in respect of the claim/return period up to the date of the council's certificate.			
Ensure the Certification Instruction has been adhered to when compiling the claim, particularly noting the definition of eligible expenditure and accounting basis.			
Ensure that the senior officer preparing to certify the claim/return is authorised to do so under the terms of the scheme.			

## Appendix 4 – Example checklist

<b>Working Paper Check</b>	<b>Yes/No</b>	<b>Initials and Date</b>	<b>Working paper ref:</b>
Ensure the claim/return is submitted to the audit team as per the agreed timetable. If delays are anticipated please notify the claims co-ordinator and the audit team.			
<b>Documentation of Controls</b>	<b>Yes/No</b>	<b>Initials and Date</b>	<b>Working paper ref:</b>
Are the controls to ensure that the terms and conditions are complied with, in particular relating to the eligibility of expenditure, documented?			
Are the controls to ensure that there is no duplication with other claims documented?			
Are the controls over postings from other systems/journals documented?			
Is evidence of the monitoring records/audit trail to support third party expenditure included in the claim provided?			
Are the controls to ensure that transactions are accurately coded and authorized documented?			
Is any relevant internal audit work that has been undertaken documented?			
<b>Prepared by</b>	<b>Responsible Officer</b>		<b>Date</b>
<b>Review</b>	<b>Yes/NO</b>	<b>Initials and Date</b>	<b>Working paper ref:</b>
Has the file been reviewed to check that:			
Working papers are complete?			
The claim is arithmetically accurate?			
All steps of the checklist have been completed?			
<b>Reviewed by</b>	<b>Responsible Officer</b>		<b>Date</b>

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Review the reasons why grant claims or returns have been amended and/or qualified, to ensure that these issues are not repeated in the future.	2	Finance Managers	Yes	FM's to review feedback in their own directorates.	August 2009
7	R2 Implement standardised internal quality monitoring procedures within the Council to address the issue of amendments stemming from inadequate review.	3	Finance Managers	Yes	Standardisation of internal QA to be discussed at SAMs meeting.	July 2009
8	R3 Review reasons why grant claims and returns were not submitted by the deadline date, and implement measures to avoid these deadlines being missed in future years.	3	Finance Managers	Yes	FM's to review feedback in their own directorates.	August 2009
8	R4 Ensure that auditors are made aware as soon as it is likely that a submission date is not going to be met.	3	Finance Managers	Yes	FM's to action this recommendation within their directorates.	July 2009
8	R5 Prioritise the response to audit queries on grant claims so that audit deadlines are not unnecessarily missed.	3	Finance Managers	Yes	FM's to action this recommendation within their directorates with reference to the Audit protocol (see R7).	July 2009
10	R6 When compiling a working paper file, ensure that all entries on the grant claim or return are fully supported within a working paper file dedicated to the grant claim or return.	3	Finance Managers	Yes	FM's to action this recommendation within their directorates.	July 2009

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R7 Ensure that good practice in the preparation of working paper files is disseminated throughout the Council to raise overall standards.	2	Technical Finance Manager	Yes	Good practice has been disseminated on working papers through the cross service 'Close of Accounts Working Group' as part of the Audit Protocol introduced as part of the 2008/09 Close-down process.	June 2009
10	R8 Implement a standardised approach to the preparation of working paper files across each Directorate. Use of the Pre-audit checklist, shown at Appendix 4, could be one way of doing this.	2	Finance Managers	Yes	Standardisation of internal QA to be discussed at SAMs meeting.	July 2009
10	R9 Ensure that internal quality monitoring processes are operating effectively so that all working paper files are reviewed prior to submission to the audit team for certification. Use of the Pre-audit checklist, shown at Appendix 4, could be one way of doing this.	2	Finance Managers	Yes	FM's to action this recommendation within their directorates with reference to the Audit protocol (see R7).	July 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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