



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

May 2011

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Ref: 212A2011

Grant Claims and Returns 2009-10

Neath Port Talbot County Borough Council

The quality and accuracy of grant claims and returns need to improve and grant arrangements are not yet robust.

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Summary

1. Neath Port Talbot County Borough Council (the Council) is responsible for submitting returns as required and the claims to which it is entitled as well as for ensuring that they are:
 - completed accurately and in accordance with the scheme's terms and conditions;
 - supported by systems of internal control, including systems of internal financial control and internal audit;
 - supported by adequate working papers; and
 - properly supervised and controlled.
2. Under Section 2 of the Public Audit Wales Act 2004, the Auditor General is responsible for arranging to certify some but not all of the claims submitted in respect of grants or subsidies from a range of other public bodies. A series of certification instructions agreed with the relevant grant paying bodies specify the audit tests required. The scope of the testing applied depends on a risk assessment of the Council's internal control environment.
3. The Wales Audit Office is required to certify the claims and returns of the Council and conclude whether each is fairly stated and in accordance with the relevant terms and conditions.
4. We reported in 2009 that the quality of grant claims and returns submitted for audit and the grant arrangements needed to be improved. Although the statistics show a reduction in the number of qualified or amended claims and returns, the quality of the underlying grant management, claim preparation and control processes has not improved.
5. In 2009-10, the Council submitted 38 grant claims for a range of services totalling £88.1 million of grant due to the Council as well as returns totalling £43.7 million. In addition, the South Wales Trunk Roads Agency (SWTRA) submitted 29 grant claims totalling £42.9 million. We have concluded that the quality and accuracy of grant claims and returns need to improve and grant arrangements in general are not yet robust.
6. We note also that there is a need to enhance internal control arrangements in respect of some grants. These enhancements will lead to improved certification results, reduce the risk of the claw-back of grant funds by grant paying bodies and contribute to reducing the fees for our grant work.
7. The cost of our grant certification work to date is approximately £138,000 (£109,000 last year) (main reasons for increase were the two new convergence grants audited for the first time in 2009-10).
8. Further guidance is available on the Wales Audit Office Good Practice Exchange, which is located at www.wao.gov.uk/1821.asp.

Recommendations

R1	Address the issues raised in the qualification letters for individual 2009-10 grant claims as soon as possible.
R2	Improve grant project management arrangements, by ensuring: <ul style="list-style-type: none">• a consistent approach to project management and reporting; and• that project managers understand and apply the financial aspects of the control and monitoring of grant projects.
R3	Improve arrangements to compile, record and monitor grants, particularly: <ul style="list-style-type: none">• improve arrangements to quality control grant claims prior to submission;• ensure consistent control and monitoring of grants to third parties;• ensure consistent control and monitoring of partner expenditure, including match funded expenditure;• ensure the receipt of written approval of virements to approved or allocated expenditure from the grant-paying body in accordance with the terms and conditions of the scheme;• ensure claims include only eligible expenditure; and• ensure working papers supporting grant claims comply with the Council's grants administration system guidance.
R4	Provide further evidence to support the internal control environment and include this as part of standard working papers.

The quality and accuracy of grant claims and returns need to improve and grant arrangements are not yet robust

There has been little improvement in the quality and accuracy of the grant claims and returns

9. The statistics set out in Exhibit 1 below show that the quality and accuracy of grant claims and returns deteriorated over the years up to 2008-09. The results for the 2009-10 work suggest that there has been some improvement. However, whilst the frequency of errors has reduced overall, the effectiveness of the underlying monitoring, preparation and quality control processes has not improved. Several qualification letters on individual claims identified multiple issues, demonstrating the poor standard of preparation and review. We have provided the details of all qualification letters issued and amendments made for 2009-10 to management for information.

Exhibit 1: Grant claim errors and qualifications - history

Grant claim period	Claims certified 'clean' %	Claims qualified and amended %	Claims amended %	Claims qualified %
2005-06	51	6	32	11
2006-07	47	15	28	10
2007-08	36	10	23	31
2008-09	17	9	9	65
2009-10	28	7	10	55

10. For 2009-10, we received 70 grant claims for certification, one of which was below the level at which certification is required. Of the remaining 69 claims (57 for 2008-09), we amended seven (five for 2008-09), qualified 38 (37 for 2008-09) and both qualified and amended five (five for 2008-09). We certified only 19 claims for 2009-10 (10 for 2008-09) without qualification or amendment.
11. Exhibit 2 sets out the analysis of claim amendments and qualifications across directorates and shows that the Council's performance is below the average for Wales compared to last year.

Exhibit 2: Grant claim amendments and qualifications across directorates

Directorate	Number of claims submitted	Claims qualified and amended	Claims amended	Claims qualified (issues)
Education, Leisure and Lifelong Learning	7	2	–	3 (13)
Social Services, Health and Housing	8	1	1	2 (9)
Environment	5	1	2	2 (8)
Chief Executive	13	–	3	–
Finance	7	1	1	2 (5)
Council claims and returns – total	40	5	7	9 (35)
South Wales Trunk Roads Agency	29	–	–	29 (2)
Total	69	5	7	38
Percentage of total 2009-10		7%	10%	55%
Percentage of total 2008-09		9%	9%	65%
Average for Wales 2008-09			10%	25%

12. Although the amendments made to the claims were of low value in terms of the total value of grants received, our qualification letters identify several significant issues that could further affect grant funding should the grant paying bodies, in response to those issues, choose to recover grant paid.
13. Exhibit 3 shows that, for 2009-10, the Council submitted 38 (54 per cent) of the 69 claims and returns to us late, a slight improvement over 2008-09. It also shows the number of claims submitted with working papers, whether or not complete.

Exhibit 3: Grant claim submission

Directorate	Number of claims	Claims submitted late	Working papers with claim
Education, Leisure and Lifelong Learning	7	2	–
Social Services, Health and Housing	8	3	2
Environment	5	4	4
Chief Executive	13	–	–
Finance	7	–	5
South Wales Trunk Roads Agency	29	29	–
Total	69	38	11
Percentage of total 2009-10		55%	16%
Percentage of total 2008-09		64%	12%

Action needs to be taken to improve grant arrangements

14. The detailed issues arising from our certification work on each grant claim have been reported to management, we have summarised in the following paragraphs the more frequent issues that arose during our work on 2009-10 claims for information:

- **Inadequate working papers:** Very few working paper files accompanied claims submitted for certification, though basic schedules accompanied some claims. Most frequently, however, we received working papers only when we requested them and, on occasion, they were prepared only at this time. The completeness and quality of working papers vary widely across grant compilers. Furthermore, there is no evidence of independent review of the accuracy or completeness of claims or supporting working papers before the Chief Financial Officer signs the claim certificate. Improved quality control arrangements would reduce the incidence of many of the issues in the paragraphs below.
- **Unclear evidence of acceptance of responsibilities:** Claims submitted for certification frequently do not differentiate between Grant Compiler and Service Grant Accountant. Claims come to us directly from compilers as well as through service accountants. There is no consistent pattern of delivery or acceptance of responsibility. This often means that accountants redirect us when attempting to resolve queries.
- **Incorrect completion of claim forms:** Claim compilers made a number of basic errors when completing claim forms. These included arithmetic errors, incorrect reference numbers, and omission of required data as well as an instance of unauthorised signature of the Chief Financial Officer's certificate. Quality control arrangements need to be improved.
- **Claiming ineligible expenditure:** A number of claims included ineligible expenditure. Such expenditure included some relating to other claims or in excess of approved amounts, some that was already grant funded and some not yet defrayed. There was no evidence that project staff or claim compilers had reviewed the claims to ensure the inclusion of only eligible expenditure. Arrangements to quality control grant claims therefore need to be improved.
- **Insufficient evidence:** There were several instances where there was insufficient or no evidence available at the time of our work to support expenditure included in claims.
- **Inadequate monitoring of partner expenditure:** There is no corporate approach to the monitoring of expenditure incurred by partners. There are adequate procedures in place for the European Convergence funded grants where the Council is the lead sponsor. However, the Council also leads on other claims that include partners that provide match funding, as well as third parties to whom the Council gives grants. There are some newer grant claims in this latter group where there are no monitoring procedures yet in place. There needs to be a consistent approach to the control and monitoring of grants to third parties.

- **Failure to comply with virement procedures:** The terms and conditions of most grant schemes require approval in writing by the grant paying body of all virements between approved or allocated expenditure within the schemes. For several claims, there was no evidence of the approval of virements. We acknowledge that in most of these cases the Council made application to the grant paying body, but received no written response. The Council should exert additional pressure on the grant paying bodies to respond.
 - **Meeting submission deadlines:** The Council must ensure that it adheres to the prescribed timescales to deliver grant claims and returns for certification, to enable timely submission to the grant paying body of the certified claim or return. A centrally maintained control schedule would assist in this regard.
 - **Grants administration manual:** In July 2005, the Council documented a grants administration system that provided guidance and several standard documents for use by all involved in the grants administration and control process, from documenting a bid to the creation of a database of grants and returns and submitting claims. The system documentation includes a claim working papers checklist that encompasses required working papers and their review, but it is not used. Introducing the system as compulsory, at least in part, would assist in improving grant arrangements.
15. These suggested improvements will strengthen controls and reduce the time spent overall by officers. Stronger controls will also help to reduce the elapsed time of our certification work and contribute to a reduction in fees.

Internal control arrangements can be enhanced, which will lead to improved quality of claims and certification results

16. As part of our risk based approach, we undertake an assessment of each grant claim and its internal control arrangements in order to determine the scope of our testing. The example of an internal control assessment form attached at Appendix 2 addresses the internal control elements that we review which include:
- the complexity of the claim, the volume and value of transactions;
 - issues from previous years' certification work;
 - changes in the scheme or in the method of preparation;
 - expertise and knowledge of preparers (including the adequacy of supervision and review);
 - evidence of monitoring of compliance with terms and conditions;
 - effectiveness of internal financial controls (eg, journals, budgetary control, internal audit);
 - quality of supporting working papers; and
 - the results of analytical review.

17. Better evidence of the control environment including the extent of supervision and review and other monitoring controls would help us to target our work more effectively and focus on higher risk areas. The inclusion of evidenced analytical review, comparison of outturns against budget and ensuring that independently certified accounts are available to support partner expenditure will also contribute to a more efficient certification process.

Appendix 1

Action Plan

Recommendation	Agreed	Responsibility and actions	Completion date
R1 Address the issues raised in the qualification letters for individual 2009-10 grant claims as soon as possible.	Yes	Head of Financial Services to address with finance managers by July 2011	December 2011
R2 Improve grant project management by ensuring: <ul style="list-style-type: none"> • a consistent approach to project management and reporting; and • that project managers understand and apply the financial aspects of the control and monitoring of grant schemes. 	Yes	Head of Financial Services to address with finance managers by July 2011	December 2011
R3 Improve arrangements to compile, record and monitor grants, particularly: <ul style="list-style-type: none"> • improve arrangements to quality control grant claims prior to submission; • ensure consistent control and monitoring of grants to third parties; • ensure consistent control and monitoring of partner expenditure, including match funded expenditure; • ensure the receipt of written approval of virements to approved or allocated expenditure from the grant paying body in accordance with the terms and conditions of the scheme; • ensure claims include only eligible expenditure; and • ensure working papers supporting grant claims comply with the Council's grants administration system guidance. 	Yes	Head of Financial Services to address with finance managers by July 2011	December 2011
R4 Provide further evidence to support the internal control environment and include this as part of standard working papers.	Yes	Head of Financial Services to address with finance managers by July 2011	December 2011

Appendix 2

Control environment assessment form

1	<p>Degree of risk attached to the claim or return</p> <p>Record the auditor's assessment (high/medium/low) of the relative risk attached to the claim or return (eg, volume of transactions, complexity of scheme) as a starting point for assessing the control environment.</p>
2	<p>Compilation</p> <p>Note briefly the method of compilation including changes from the previous period.</p>
3	<p>Control environment</p> <p>Record the auditor's assessment of the control environment and decide whether or not to place reliance on the control environment:</p>
(a)	<p>Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme's terms and conditions.</p> <p><i>A control environment upon which reliance can be placed is likely to include: evidence of grant terms and conditions being identified and reviewed and action taken at an early stage to collect the information that will be required to demonstrate entitlement to grant; comprehensive documentation; ongoing monitoring of compliance with terms and conditions; monitoring and compliance with deadlines.</i></p>
(b)	<p>Control arrangements, including internal financial control and internal audit.</p> <p><i>A control environment upon which reliance can be placed is likely to have:</i></p> <ul style="list-style-type: none"> • cost codes for each claim/return, with controls over data posted from other systems/journals and reconciliations that ensure transactions are properly authorised and coded; • a coding structure tailored to the claim/return requirements; • procedures to demonstrate funding passed to third parties have been used for the intended purpose; • effective budgetary control and cash flow monitoring; and • for claims/returns based on complex financial systems, internal audit assurance that systems have operated satisfactorily over the period covered by the claim.

c)	<p>Quality of authority supporting working papers.</p> <p><i>A control environment upon which reliance can be placed is likely to have working papers that include:</i></p> <ul style="list-style-type: none"> • the date they were prepared and who prepared them; • the claim/return entries to which they relate including cross references to or copies of source documents; copies of original approvals, variations and correspondence with the grant-paying body; • a reconciliation of the claim/return to the accounts including payments on account; analytical review with explanations of significant variances; • notes on the basis of any apportionments included; • a description of relevant internal controls; • a note of any relevant internal audit work; and • evidence to support expenditure included in the claim/return but incurred by another body.
(d)	<p>Expertise and relevant knowledge of preparers, including the adequacy of supervision and review.</p> <p><i>A control environment upon which reliance can be placed is likely to have:</i></p> <ul style="list-style-type: none"> • claims/returns prepared by officers with appropriate expertise and knowledge of the scheme; • pre-certification checks for arithmetical accuracy, completeness and reasonableness, including test checks to supporting records and review, by an officer not involved directly in the compilation process; and • evidence of the review process and the steps the authority has taken to satisfy itself that the assurance provided by its certificate is well founded.
(e)	<p>Cumulative knowledge of the problems associated with the compilation of this claim or return including previous points arising, any known concerns expressed by the grant-paying body or any actions/decisions by the grant-paying body on previous qualification letters. <i>In a control environment upon which reliance can be placed there will be no significant issues which are ongoing or recurrent; effective action will have been taken to address previous points arising including concerns expressed by the grant-paying body and grant-paying body's actions/decisions following previous qualification letters.</i></p>
(f)	<p>Analytical review</p> <p><i>Summarise the results of the comparison of expected with actual outcomes, the identification of unexpected variances and their subsequent investigation, explanation and corroboration and, where possible, comparisons with other authorities or national statistics.</i></p>
(g)	<p>Overall assessment</p> <p>Based on sections 3(a) to (f) above, record your overall assessment of the control environment for the preparation of this claim or return and whether you have decided either to place reliance on the control environment and therefore complete only the Part A CI tests, or decided not to place reliance on the control environment and therefore complete both Part A and Part B CI tests. The basis of your decision should be clearly recorded.</p>



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