

March 2007

# Darlington Borough Council

## 2005/06 Grants and Returns – Summary Report for the Audit Committee

Statement of Responsibilities of Auditors and of Audited Bodies

*The Audit Commission has issued a Statement of Responsibilities of Auditors and Audited Bodies, the purpose of which is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. A copy of this Statement is available from the Chief Executive of each audited body.*

*Our reports and Audit Letters are prepared in the context of this statement. The matters raised in this and other reports that flow from our audit are only those that have come to our attention arising from, or relevant to, our audit, and that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

## Introduction

1. Many grant awarding bodies require external certification of claims and of other returns providing financial information. As Darlington Borough Council's external auditors, PricewaterhouseCoopers LLP (PwC) carries out this certification role.
2. Our responsibilities in relation to certification work are determined by the Audit Commission. The detailed work we carry out on individual grants and returns is set out in certification instructions (CIs). These instructions are agreed between the Audit Commission and the funding bodies. They are tailored to each scheme and are designed to ensure that authorities adhere to the strict conditions under which grant has been awarded.
3. To manage the number of grant claims and returns certified by the external auditors and to reduce the regulatory burden faced by authorities, the Audit Commission has placed limits on certification requirements based on the total grant claimed as follows:
  - (a) for claims and returns below a *de minimis* amount, currently £50,000, external certification is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions;
  - (b) for claims and returns between the *de minimis* amount and a threshold, currently £100,000, auditors undertake limited tests to agree entries on the form to underlying records, but do not undertake any testing of the eligibility of expenditure or data;
  - (c) for claims and returns over the threshold, auditors 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, auditors undertake limited tests to agree form entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors undertake all of the tests in the relevant CIs and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.
4. We anticipate that the *de minimis* and threshold levels set out above will be increased in future years. There are also currently a number of schemes, such as Neighbourhood Renewal Fund support to LAAs, which have no requirement for external certification regardless of the level of funding. There will therefore be increasing reliance placed on Councils' internal processes and self-certification of grant claims in future years. The issues summarised in this report and the recommendations made should be considered in this context.

## Objectives of this report

5. This report summarises, for the Council's Audit Committee, the high-level results of our grants testing in 2006/07.
6. Specific issues arising with individual grants have been documented in a more detailed report (Report on 2005/06 Grants and Returns") previously submitted to officers.

## Summary of 2005/06 grants certified

7. There are four possible outcomes from the grant certification process:
  - There may be no issues with the claim;
  - We may find an error in the form which is notified to officers and corrected in a resubmitted form – an amendment;
  - We may detect an issue in the compilation of the form which cannot be corrected, for example where supporting documentation is missing, or, unusually, where we cannot agree the issue with officers. Such issues are notified to the funding body in a covering letter to the claim – a qualification; or
  - A claim may be both amended and qualified in relation to different issues.

8. The table below summarises the results of our certification work for 2005/06 claims and returns:

<b>Grant Claims</b>	<b>Number in 2005/06</b>
Qualified	6
Adjusted	6
Both adjusted and qualified	4
Neither adjusted nor qualified	4
<b>Total</b>	<b>20</b>
Number of claims submitted for certification later than the specified date	9

9. The table shows that, of the 20 claims/returns we have certified, 16 (80%) were amended and/or qualified. In addition, 9 (45%) of all of the 2005/06 claims and returns were submitted to us for certification later than the date specified by the grant awarding body.

10. In considering these results, it is important to note that:

- There is no materiality threshold for our work on grants. Therefore some of the amendments and qualifications were minor in terms of monetary amount. The range of adjustments was from nil to £38,000; and
- We have recorded grant submissions as late even in cases where they were submitted to us only a few days after the deadline.

### **Recommendations for improvement**

11. Notwithstanding the cautions raised in paragraph 10 above, the 2005/06 results indicate that there is scope for the Council to improve the arrangements in place to manage grants.

12. In the detailed report to officers, we have made recommendations for improvement including:

- In all cases, officers responsible for the compilation of claims and returns should:
  - familiarise themselves with the funding bodies' requirements and ensure these are complied with; and
  - prepare and retain comprehensive working papers.
- Claims and returns and supporting documentation should be reviewed by an officer independent of the preparation of the form prior to submission for certification. The review should be evidenced by formal dating and sign-off of the working paper pack.
- Management should consider extending the role of the grant co-ordinator at Darlington Borough Council to include responsibility for the maintenance of a central register of submission dates to proactively manage the timeliness with which grants and returns are submitted.

13. Management has agreed to all of our recommendations and we will review the action taken at a later date.

### **Acknowledgements**

14. We would like to thank all of the officers at the Council who assisted us with the grants certification work in the year.

Freedom of Information Act 2000

*In the event that, pursuant to a request which the Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this proposal, it will notify PwC promptly and consult with PwC prior to disclosing such information. The Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Council shall apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, the Council discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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