

Government and Public Sector

March 2008

# Darlington Borough Council

## Report on 2006/07 Grants and Returns

Paul Wildsmith  
Director of Corporate Services  
Darlington Borough Council  
Town Hall  
Feethams  
Darlington  
DL1 5QT

March 2008

Dear Paul

## **2006/07 Grants Report**

Please find enclosed our 2006/07 Grants Report. The purpose of this report is to set out the common matters arising from our work on the certification of the Council's 2006/07 grant claims in order to assist the Council in strengthening its arrangements in future years.

This report also details the specific issues we identified or have reported on as part of the certification process for each of the Council's 2006/07 grant claims.

We would like to take this opportunity to thank Council staff for their assistance on each of the grant reviews.

Yours sincerely

PricewaterhouseCoopers LLP

# Contents

Section	Page
Introduction .....	1
General Observations and Recommendations .....	3
Annex A – Summary of adjustments in relation to the grant claims certified .....	4
Appendix A – Specific Grant Observations and Recommendations .....	6
Appendix B – Authority working papers in support of claims .....	8

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 PwC generally carries out this certification role.
2. Our responsibilities in relation to the 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) which are tailored to each scheme. These instructions are agreed between the Audit Commission and the funding bodies and are designed to ensure that authorities adhere to the strict conditions under which grant has been awarded.
3. Non-compliance with the conditions of grant increases the risk to the Council that the grant paying body will retain or clawback funding. In addition, inefficiencies in the preparation of grant claims for certification, and non-compliance with the conditions of grant, complicates the certification process and ultimately increases the cost to the Council of certification work completed by the external audit team.
4. 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 £100,000, certification arrangements are 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 £500,000, auditors will undertake limited tests to agree form entries to underlying records, but will not undertake any testing of the eligibility of expenditure or data;
  - (c) for claims and returns over the threshold, auditors will 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 will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.
5. This report details matters identified during the certification of the Council's 2006/07 grant claims and returns. It also highlights general areas for improvement in relation to the way in which the Council's claims and working papers were prepared for our review.

## Summary of 2006/07 Grants Certified

6. There are four possible results arising from the certification process:

- There may be no issues with the claim;
- We may detect 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.

7. The table below summarises the number of claims we have certified relating to 2006/07 and the results of the certification process.

Grant Claims	Number in 2006/07	%	Number in 2005/06	%
Qualified	2	17%	6	30%
Adjusted for issues identified during the audit	5	42%	6	30%
Both Adjusted and Qualified	1	8%	4	20%
Neither Adjusted nor Qualified	4	33%	4	20%
<b>Total</b>	<b>12</b>		<b>20</b>	
Number of claims received later than specified date for audit	2	17%	9	45%

8. The table shows that, of the 12 claims/returns we have certified to date, 8 (67%) were amended and/or qualified. However, this is a marked improvement on the prior year when 80% of claims/returns were amended and/or qualified.

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

- i. 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 £22,000; and
- ii. We have recorded grant submissions as late where they were submitted to us over three days after the deadline.

10. Annex A summarises the adjustments made in relation to the above grants and the issues raised in the qualification letters.

11. Appendix A provides greater detail on these adjustments and qualification letters.

12. It should also be noted that 17% of all of the claims received during the year were received later than the date specified by the audit commission. For each grant claim, the audit commission specify a date for submission of the claim/return to the auditors for certification. The auditors are then given a deadline for certification of the claim. If the Council send in their grant claim/return after the deadline for submission to their auditors then this reduces the likelihood that the claim will be certified prior to the certification deadline. However it should be noted that all grant claims were certified prior to the certification deadline.

# General Observations and Recommendations

13. During the course of our work we identified some common matters relating to the certification of the Council's claims. These matters are detailed below.

## **Adequacy of Supporting Documentation**

14. Working papers are required in support of each line within a grant claim. Working papers may include ledger balances, remittance advice, calculations of apportionments made and correspondence with the grant paying body. We use ledger transactions to choose invoices for detailed review. The receipt of adequate working papers at the start of the review facilitates an efficient review process and ultimately reduces the cost to the Council for work undertaken. These working papers should be maintained by the Council as they will be required to prepare the grant claim, therefore, these should be made available for review by PwC at the start of the audit. This will also provide comfort for those senior officers who are responsible for authorising grant claim returns.

15. We have not had any specific issues in relation to the adequacy of working papers during the year; however, the Council should ensure that they continue to provide adequate working papers.

**16. An example of effective working papers has been attached at Appendix B.**

## **Receipt of Grant Claims**

17. Out of a total of 12 grant claims audited in 2006/07, 2 were received after the Audit Commission deadline for submission of claims to auditors. This reduces the scope for us to audit the claim within the time period required by the certification instructions and so increases the likelihood of a late submission. The following grant were received after the deadline:

- i. Single Regeneration Budget
- ii. Transport Supplementary Grant

**18. We recommend that the Council ensure that grants are submitted to PwC prior to the deadline imposed by the Audit Commission.**

# Annex A – Summary of adjustments in relation to the grant claims certified

Grant Claim	Area of adjustment	Value of adjustment Increase / (decrease)	Ref. (Appendix A)	Impact on Grant Claimed
<b>General Sure Start</b>	Main capital expenditure block	Not Applicable	1	Reported to Department for Education and Skills.
<b>Housing and Council Tax Benefit</b>	Reconciliation of Northgate Payment Reports	Not Applicable	2	None
	Local Authority Overpayments	21,187.09	3	Increased amount owed to the authority by £5,868
	Eligible Overpayments	(21,187.09)		
	Backdated Expenditure	Not Applicable	4	Reported to Department for Work and Pensions
<b>Teachers Pension Return</b>	Completion of Form	Not applicable	5	Amended form
<b>National Non Domestic Rates</b>	Reductions: Community Amateur Sports Club	Not applicable	6	None
<b>Pooling of Housing Capital Receipts</b>	Administration Costs	Not applicable	7	Reported to Communities and Local Government
<b>Adult Safeguarded Learning</b>	NLDC Capital Grant	(270.00)	8	Decreased amount claimed by £270

<b>Grant Claim</b>	<b>Area of adjustment</b>	<b>Value of adjustment Increase / (decrease)</b>	<b>Ref. (Appendix A)</b>	<b>Impact on Grant Claimed</b>
<b>HRA Subsidy Base Data</b>	Average interest rate	0.61%	9	Amended form
	Newly accounted for property in HRA	(26,500)	10	
<b>HRA Subsidy</b>	Average rate of interest in 2005/06	0.01	11	Amended form
<b>Disabled Facilities Grant</b>	Capital expenditure on 2006/07 approvals	(10,561.24)	12	Amended form
	2006/07 unspent allocation to be carried over into 2007/08	10,561.24	13	



# Appendix A – Specific Grant Observations and Recommendations

Ref	Observation
<b>General Sure Start</b>	
1.	The Council included a revenue amount totalling £1,013.76 in expenditure for the Main Capital Block. We did not find any other misclassifications and this was raised in a qualification letter to the Department for Education and Skills.
<b>Housing and Council Tax Benefit</b>	
2.	The Council reconcile between the subsidy claimed on Northgate and actual payments, using standard proforma's provided by the Department for Work and Pensions. The discrepancies noted in the reconciliations came to a net total of £2,213. The cases to which these discrepancies relate have been identified and will be amended in the 2007/08 claim. This was not reported to the DWP, however, it will be reviewed during next years review.
3.	<p>A number of errors were noted with the classification of overpayments which had been written off due to overpayments "incorrectly actioned by assessor". The Council performed an exercise to review all overpayments written off in the year, which resulted in a reclassification of £20,999 from overpayments as a result of an eligible error to overpayments as a result of a local authority error; this was amended on the claim form.</p> <p>A further amount of £188 was identified as being incorrectly classified as claimant error rather than a local authority error. This was amended on the claim form by the Council and had the effect of increasing overpayments as a result of local authority error and decreasing overpayments as a result of an eligible error.</p>
4.	A software patch was released by the software providers Northgate to address problem of ineligible backdated amounts being included in cell 177, however the Council did not run this patch until 2007/08. The actual amount by which cell 177 is overstated is unknown, however this cell is for illustrative purposes only. This has been included in a qualification letter for Department for Work and Pensions.
<b>Teachers Pension Return</b>	
5.	The original claim form was not completed in line with the guidance notes. This was subsequently amended to comply with the guidance.

Ref	Observation
<b>National Non-Domestic Rates</b>	
6.	The control account summary for 'reductions: community amateur sports club' totalled £11,090.47, however, the total per the claim was £9,618.27. The difference relates to an office building which should have been coded to small business rates relief. The Council stated that this will be adjusted in the 2007/08 claim. This was not reported to the Department for Communities and Local Government; however, it will be audited during next years review. It should also be noted that this issue has not been included within the grant summary figures in the table on page 4.
<b>Pooling of Housing Capital Receipts</b>	
7.	An amount of £39,114 was included in administration costs; however, this had been calculated on the same basis as previous years when qualification letters have been issued. The Council produced a revised calculation in July 2007 and the difference between the two amounts will be put through the 2007/08 claim; this has been included in a qualification letter to Communities and Local Government. We will audit the revised administrative cost calculation as part of the 2007/08 claim.
<b>Adult Safeguarded Learning</b>	
8.	The amount of NLDC capital grant received in the year was stated on the claim form was £37,637. The actual amount received was £37,367; this has been amended on the claim.
<b>HRA Subsidy Base Data</b>	
9.	The Council used the average interest rate per mortgage statements in the claim of 6.28%, rather than the Standard National Rate of 6.89%. This has now been amended on the claim form.
10.	The Council included an amount of £26,500 in cell F002CC. This was not in line with the Certification Instructions and was amended on the claim form.
<b>HRA Subsidy</b>	
11.	The average interest rate included in the claim form was 4.40%; calculations showed the rate to be 4.41%. This was amended on the claim form.
<b>Disabled Facilities Grant</b>	
12.	Unspent capital allocation of £10,561.24 was incorrectly included in 2006/07 capital expenditure. This has been amended in the claim form.
13.	As noted in adjustment 12 above, the unspent capital allocation of £10,561.24 was incorrectly included as 2006/07 capital expenditure; this was amended to be shown as unspent allocation to be carried over.

# Appendix B – Authority working papers in support of claims

Working papers should include:

- (a) the date of preparation and the name of the officer preparing the working papers;
- (b) the appropriate cells of the claim or return to which the paper relates;
- (c) cross references to the system or copies of systems printouts from which the information is taken;
- (d) copies of original approvals, subsequent variations and any other correspondence with the grant-paying body;
- (e) a reconciliation of income and expenditure figures in the claim or return to working papers and account codes;
- (f) details of payments made on account, supported by relevant advice notes from the grant-paying body;
- (g) a reconciliation of the balance on each claim or return with the accounts at the date of the chief finance officer's certificate;
- (h) a comparison of expenditure with approvals;
- (i) an explanation of significant variances from the previous period and from forecasts;
- (j) details of large journal transfers, with voucher references;
- (k) notes on the basis of any expenditure apportionment;
- (l) a description of relevant internal controls and a note on the extent of internal audit cover, with cross reference to internal audit files;
- (m) evidence that contracts were let in accordance with standing orders where the claim or return includes charges for work carried out by a third party under contract;
- (n) evidence of independent review of expenditure, which is included in the claim or return, but incurred by another body.

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.*

© 2008 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to the PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.