



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Certification of Grants and Returns 2014-15

Newport City Council

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Summary

1. Under Paragraph 20 of Schedule 8 to the Government of Wales Act 2006 the Auditor General shall, if required by a local government or other grant-receiving body, make arrangements for certifying claims and returns (referred to as grant claims, hereafter).
2. We have completed our audit work and conclude that the Council had adequate arrangements in place for the production and submission of its 2014-15 grant claims.
3. For 2014-15, we certified 18 grant claims with a total value of £154.7 million compared to 20 claims with a total value of £149.8 million in 2013-14. The decrease relates to the removal of certification arrangements for three Welsh Government Education grants plus the certification of two S28a projects under HLG03 on the same claim form, netted against the new certification arrangements for Transitional SBIG T3 21st Century Schools under EDU18 and Local Transport Grant under TRA15.
4. The Council was late submitting only 3 out of the 18 claims, or 16.7 per cent – this is an improvement in performance from 2013-14 when 5 out of 20 claims were submitted late. One of these late claims was the final claim for the European Structural Fund, Pillgwenlly Regeneration Initiative audited under EUR02, where Council officers and WAO agreed to delay the start of the audit by 7 days to ensure an auditor suitably experienced and familiar with the project was available to undertake the audit. Of the remaining 2 claims, the Housing Benefit Subsidy return audited under BEN01 was only 1 day late. The other late claim was the NNDR3 Final Contributions return audited under LA01. Council officers informed us that the signed return had been posted to the WAO office in Cardiff in the absence of auditors on site to physically hand it on, but the return never arrived. After waiting an appropriate time for late delivery, a replacement return was provided on 30th June 2015. For future reference, Council officers should always physically hand claim forms to WAO auditors. The '*Joint Protocol on Grants Management*' specifies the respective roles and responsibilities of both Council officers and WAO to prevent the loss of signed claims. If this is prevented by the absence of WAO staff on site, the Protocol makes provision for the date of deemed receipt to be logged by WAO in preference to entrusting claims to the vagaries of the postal service.
5. Following delivery of grants training to Council officers on 17 March 2015 focussing on the agreed requirements, as set out in the '*Joint Protocol on Grants Management*' and in particular ensuring clearer compliance with the revised '*Council Grant Claim Checklist*', we have provided specific feedback on every grant claim audited and certified, both to the Council officers compiling the claims and to the Council's Grants Co-ordinator. The quality of files provided was generally satisfactory but improvements can be made which would potentially facilitate smoother audits and reduce the audit cost to the Council. The range of issues covered by this specific feedback is broad and will be discussed with the Council's Grants Co-ordinator to establish where improvements can be made for the 2015-16 audit certification round. Common issues noted included the identification of all contracts under which grant-funded expenditure was incurred,

the evidence supporting accruals and supplementary creditors claimed but not paid at year-end, and the clarity of evidencing that expenditure per claim was reconciled to the Council's ledger records.

6. Our corresponding 2013-14 report on grants certification highlighted the first two of these three issues, and has led to a number of amendments and qualifications as will be seen in the detailed feedback on each claim later in this report. The '*Joint Protocol on Grants Management*' clearly sets out the expected process to be followed to provide a supporting evidence file with the signed claim for audit, including the quality assurance checks necessary to complete the '*Council Grant Claim Checklist*'. At very least, this should have ensured that there was an audit trail available albeit maybe not always able to be filed separately – and should have identified inconsistencies, such as the requirement to provide a list of contracts entered into under the claim being 'not applicable' for a claim involving capital expenditure. It must also be noted that the '*Joint Protocol on Grants Management*' also provides that certification instructions applicable to the audit of each grant are provided to the Council's Grants Co-ordinator upon their release to auditors, for further circulation to relevant Council officers responsible for collating that grant claim. These certification instructions clearly flag the audit review expected, and should forewarn officers of the nature of audit enquiries – giving ample opportunity to prepare working paper files meeting every applicable requirement listed on the '*Council Grant Claim Checklist*'.
7. The number of 'qualified' claims increased from 6 in 2013-14 to 10 in 2014-15, albeit all four Communities First clusters audited under RG03 were qualified on the same issue. This qualification and also the main qualification for the Local Transport Grant audited under TRA15 relate to failures to prove that contracts awarded, under which grant-funded expenditure was incurred, had been procured properly under Council's Contract Standing Orders. Both these grants and indeed most of the Welsh Government funded grants impose an audit requirement to test contract procurement – it does not mean the actual expenditure incurred under these contracts is automatically invalid or ineligible, but as it is an explicit requirement of the audit there is no discretion to avoid reporting. It must also be noted that two qualifications raised on the Flying Start claim audited under EYC01 and the Families First claim audited under EYC14 relate to specific requirements to obtain approval to vire funding between budget heads within the approved analysis of projects under each claim. Again, testing is explicitly required by each certification instruction and the facts have been reported but evidence provided by Welsh Government already indicates no action is to be taken on either issue. We would highlight that the grant-paying body, usually Welsh Government, hold discretion on how to address a qualification issue they have specifically instructed auditors to be test for and we would expect the Welsh Government to be in contact with Council officers to decide what steps will be taken on each qualification. As noted with the virements qualifications above, the qualifications themselves do not necessarily lead to further action being taken..

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8. Claims requiring amendment decreased from 13 in 2013-14 to 10 in 2014-15, which represent 65% and 55% of the certified claims respectively. The value of the amendments made decreased significantly, albeit this comparison is skewed by a £351,004 amendment made to the Free Concessionary Travel return audited under TRA23 in 2013-14. The majority of amendments made relate to specific issues, of which the most pervasive would be the continued claiming of accrued expenditure either not proven to be incurred in 2014-15 or proven to not be a valid accrual. It must also be noted that the reconciliation issues described on the European Structural Fund, Pillgwenlly Regeneration Initiative audited under EUR02 have not generated any amendments to the final claim form in accordance with the set protocol imposed by the Welsh European Funding Office (WEFO) under EU rules – however, the reported omission of £136,975 of eligible expenditure from the final claim is highly unlikely to be ignored and should generate amendments to the final claimed balance when WEFO process the final accountants report highlighting this issue amongst others.
 9. Two of the 10 amendments were significant, being over £10,000 in value. One of these amendments relates to the removal of all invalid accruals claimed in the Flying Start claim audited under EYC01, totalling £31,797 or approximately 10% of claimed accrued expenditure on this claim. We recognise that there is a Council process at year-end to ensure accruals relating to open purchase orders are checked and, if followed diligently by all officers, it should theoretically address the risk of accruing for expenditure that has not been incurred and will not result in any payment. The second amendment relates to the correction of the claim balance on the Families First claim audited under EYC14, reducing the balance by £14,817 to recognise a repayment already made after year-end but in advance of the CFO certification of the claim for audit. Certification instructions clarify the requirements for claim completion and should mirror specific completion instructions circulated by the grant-paying body to councils, which should provide sufficient guidance to ensure all required data is included.
 10. Details of both the 10 qualifications and 10 amendments made to claims are contained in the body of the report between pages 8 and 26 and form the main basis of our recommendations between pages 27 and 31.
 11. The total cost of our grant claims audit in 2014-15 is £81,812 compared to the 2013-14 fee of £83,029. The audit work and associated cost for the two new grant certifications, EDU18 and TRA15, is considerably more extensive than the work required on the three EDU grants no longer requiring certification in 2014-15, which if factored in to allow direct comparison of grants audited in both 2013-14 and 2014-15, gives fees of £82,187 for 2013-14 and £75,806 for 2014-15. A comparison of these equivalent costs indicates that the decrease of £6,381 represents approximately 7.7% of the total 2013-14 fee charged to the Council. Further consideration of the reasons for the decrease in cost as contained on pages 32 and 33 of the report.

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12. We acknowledge the Council's assistance and co-operation during the audit and will continue to work with Council officers to develop our protocol and working arrangements for the 2015-16 audits.
 13. Detailed on the following page is a summary of the key outcomes from our certification work on the Council's 2014-15 grants and returns, showing where either audit amendments were made as a result of our work or where we had to 'qualify' our audit certificate.
 14. A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant-paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

Key information for 2014-15

Overall, we certified 18 grants and returns (20 in 2013-14):

5 grant claims were unqualified with no amendment (6 in 2013-14)

10 grant claims required amendments (13 in 2013-14)

10 grant claims required a qualification to our audit certificate (6 in 2013-14)

We have not been required to issue any separate reports due to significant issues (same in 2013-14)

Audit Findings

Ref – Para	CI Ref	Grants and returns	Claim due	Claim received	Late	Testing level	Qualified certificate	Qualified value	Significant adjustment (>£10,000)	Minor adjustment (<£10,000)	Unqualified/un-amended grant claim
1	BEN01	Housing Benefit Subsidy	30/04/15	1/05/15	Yes	Various				£+5,677	
	EDU18	Traditional SBIG, 21 st Century Schools	30/09/15	30/09/15	No	N/A					1
2	EUR02	European Structural Funds – Pillgwenlly Regeneration Initiative	1/09/15	9/09/15	Yes	20%	1	Not quantifiable			
3	EYC01	Flying Start	30/09/15	30/09/15	No	10%	1	Quantified, -£20,631	£-31,797		
4	EYC02	Flying Start (Capital)	30/09/15	30/09/15	No	10%	1	Quantified, -£53,081			
5	EYC14	Families First	30/09/15	30/09/15	No	10%	1	Not quantifiable	£-14,817	£0	
	HC02	Substance Misuse Action Plan Fund	30/09/15	30/09/15	No	10%					1
6	HLG03	S28A - Learning Disabilities + Frail Older Adults	30/09/15	30/09/15	No	10%				£0	
	LA01	NNDR3 Final Contributions	30/05/15	30/06/15	Yes	10%					1
	LA12	Sustainable Waste Management	30/09/15	30/09/15	No	10%					1
7	PEN05	Teachers Pensions	30/06/15	22/06/15	No	25%	1	Quantified, - £110		- £868	

Ref – Para	CI Ref	Grants and returns	Claim due	Claim received	Late	Testing level	Qualified certificate	Qualified value	Significant adjustment (>£10,000)	Minor adjustment (<£10,000)	Unqualified/un-amended grant claim
8	RG03	Communities First – West Cluster	31/07/15	31/07/15	No	25%	1	Not quantifiable		£-3,917	
8	RG03	Communities First – North Cluster	31/07/15	31/07/15	No	25%	1	Not quantifiable		£-587	
8	RG03	Communities First – East Cluster	31/07/15	31/07/15	No	25%	1	Not quantifiable			
8	RG03	Communities First – Central Cluster	31/07/15	31/07/15	No	25%	1	Not quantifiable		£-994	
	SOC07	Social Care Workforce Development Programme	25/09/15	25/09/15	No	10%					1
9	TRA15	Local Transport Grant	30/09/15	30/09/15	No		1	Quantified, - £73,729		£-6,000	
10	TRA23	Free Concessionary Travel	30/09/13	15/10/13	-	25%				£0	
TOTAL QUALIFICATIONS AND AMENDMENTS							10	£-147,551	£-46,614	£-6,689	5

15. This table overleaf summarises the key issues behind each of the adjustments or qualifications that were identified above.

Ref	Summary observations	Qualification	Amendment
1	<p>Housing Benefit Subsidy (BEN01)</p> <ul style="list-style-type: none"> • The Council claimed subsidy of £59,854,645 (previous year £57,400,243). A small number of amendments were made to individual cells which resulted in a slightly increased subsidy to £59,860,322. All errors identified during the audit were corrected prior to final certification of an amended claim form and no issues requiring qualification were identified. • Amendments made to the cell entries and subsidy claimed related to the following issues: <ul style="list-style-type: none"> – Correction made to non-HRA Rent Rebate records on the system subsidy report, result of Council officers checking entire population of benefit claims recorded against Cells 12 to 15 on the Subsidy claim form. This check was undertaken in response to misclassifications between these 4 Cells on the 2013-14 claim form. Total of 25 benefit claims in this population were found to have errors of a broad and varied nature, wider than the misclassification risk being tested for (e.g. LHA rate incorrectly set, with 2 bedrooms entered rather than 3 and affecting cap etc), with some cases needing reclassification as Rent Allowances due to input errors. Sample testing of the review undertaken by Council officers confirmed the amendments made on the system were valid. Subsidy increased accordingly – In addition, isolated errors were identified and corrected for the incorrect calculation of weekly occupational pension income based on quarterly or annual occupational receipts and for the incorrect deductions made for one claimant in receipt of two war pensions. Audit review confirmed these issues related to discrete small populations which were checked in full and confirmed to be the only errors needing amendment. 	N/A	£+5,677

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European Structural Funds – Pill Regeneration Initiative (EUR02)

- The 15 month final claim was audited at the end of the funding period and at the conclusion of the overall project, final claim date of 30 June 2015. The Accountants report submitted to the Welsh European Funding Office (WEFO) reported a number of issues, some of which relate to errors remaining on the claim and some relate to wider qualification issues
- No amendments were made to the final claim but a number of errors were reported from sample testing. The errors reported are as follows and relate to control weaknesses in ensuring the claim is accurate and complete:
 - Calculated Staff Recharge was overstated by £0.13/hr for 1 officer employed on the project, for period 1 April 2014 to 30 June 2015, failure to recalculate for receipt of pay increment. This has zero impact as the Council net these costs off with notional match funding – i.e. staff costs claimed are borne by Council monies and are not claimed from WEFO
 - Transposition error noted, detailed transaction list correctly stated the correct cost but manually input into the WEFO Online system incorrectly. As also match funded, net impact is that the Council claimed £45 too much grant (representing the difference between the overstated expenditure and the correct match funding declared).
 - Omission of £24,209 of ineligible expenditure and £3,086 of eligible expenditure –transactions for both were listed on the detailed transaction list but not appearing on the WEFO Online system record of costs input by the Council,
 - Match funding declared omitted £2,800 of match funding received to cover ineligible works, error in classification on detailed transaction lists as the category they were listed as does not exist within the claim categories
 - Match funding declared was overstated by £1,648 relating to the Council covering more than the agreed 25% of salary costs for one officer employed on the project. For one quarter, match funding declared was the full cost.
 - Match funding declared similarly omitted 1 month's superannuation on-cost for 1 officer despite declaring the associated net pay and national insurance on-cost
 - Match funding declared also omitted £6,522 of staff expenditure funded by the Council, relating to the salary recharges for 2 officers and the 25% cost cited above

Quantified –
value not
quantifiable

To be decided by
Welsh European
Funding Office
based on
Accountants
report submitted

Ref	Summary observations	Qualification	Amendment
	<ul style="list-style-type: none"> - In all but the first issue, a reconciliation between the detailed transaction list for the quarter being input into WEFO Online and the subsequent WEFO Online report would have identified the error, or at very least have highlighted the existence of inconsistencies where the specific errors could have been identified. 		

Ref	Summary observations	Qualification	Amendment
3	<p>Flying Start (EYC01)</p> <ul style="list-style-type: none"> • Claim amended due to the following issue <ul style="list-style-type: none"> – Test 9 of certification instruction EYC01 (14-15) requires the auditor to confirm the following, “<i>Have any amounts included in the statement by way of accruals and provisions been paid by the date of the authority’s certificate?</i>” – Sample testing of 21 accruals valued at £54,737 identified that 12 out of the 21 had not been paid but moreover were identified to not be eligible 2014-15 expenditure, with a value of £14,374. A full review of every accrual claimed totalling £318,024 was undertaken by Council officers on our request and concluded a total of £31,797.38 related to expenditure which had not been incurred at 31 March 2015. The claimed expenditure has subsequently been reduced accordingly. – The current year-end process requiring Council officers to validate all accruals relating to purchase orders raised but not yet matched to invoice should in theory address this risk, depending on all officers undertaking a thorough review designed to remove any accruals not required - i.e. where the expenditure was in fact incurred in the following financial year or where the purchase order should be closed off as all goods or services have in fact been received, etc. • Claim qualified due to the following two issues: <ul style="list-style-type: none"> – Relating to the same requirement of Test 9 of certification instruction EYC01 (14-15), a further £20,630.70 relating to a number of items was identified where no invoices had been received or paid by the authority at time of audit. Current records have been insufficient to ascertain whether the accrual is accurate, complete and represents eligible expenditure - no supporting information was available to validate the nature of goods and services actually delivered. In all cases, officers gave assurances that all services and goods were eligible and that payments are expected to be made as soon as invoices are received, the delay being due to administration errors from the suppliers. 	Qualified, -£20,631	-£31,797

Ref	Summary observations	Qualification	Amendment
3 (cont)	<p>Flying Start (EYC01) - continuation</p> <ul style="list-style-type: none"> – Test 5 of certification instruction EYC01 (14-15) requires the auditor to confirm that entries on the statement agree with the grant award funding letter (and any subsequent changes notified by the paying body in writing). In particular, paragraph 16 to the CI specifies that <i>“approval must have been sought in advance from the Welsh Government for any significant changes to the plan and related expenditure profiles agreed... authorities were allowed to make small virements across headings as long as the changes were not more than 10% or £250,000 (the lower) of the budget category”</i>. – This requirement has been interpreted that Newport City Council are free to adjust grant allocations between projects up to a maximum value of the lower of 10% or £250,000 without requiring Welsh Government approval, to ensure the maximum grant funding covers expenditure incurred. – The project analysis appearing on the detailed table of funding streams within the claim indicates that the expenditure claimed exceeds 110% of the pre-populated budget allocations for one project, declaring expenditure in excess of the 110% maximum valued at £16,576. – The remaining projects all declared expenditure within 110% of the disclosed allocation. Enquiries to officers confirmed no formal approval had been granted for this virement. – Officers referred us to a letter dated 23 December 2014 from Welsh Government relating to both Flying Start and Families First budgets dated 23 December 2014: <i>“We must now ensure that local authorities spend as much as possible of the Flying Start and Families First grants allocated to them this year...we are requesting that in the final claim for this year ... local authorities claim all the remaining grant available to them”</i>. Officers interpreted this instruction as authority to incur the additional spend, corroborated by an e-mail from Welsh Government dated 20 November 2015 stating <i>“I can confirm that the letter issued relating to full spend supersedes our usual instruction to claim accurately and we expected each local authority to claim their full allocation, regardless of their own personal forecast.”</i> As Council officers were acting under Welsh Government instructions, the failure to comply with specific conditions relating to virements was specified within the qualification letter as a less significant matter. 		

Ref	Summary observations	Qualification	Amendment
4	<p>Flying Start Capital (EYC02)</p> <ul style="list-style-type: none"> • Claim qualified due to the following issues: <ul style="list-style-type: none"> – Test 9 of certification instruction EYC02 (14-15) requires the auditor to confirm the following: <i>‘Have any amounts included in the statement by way of accruals and provisions have been paid by the date of the authority’s certificate?’</i> – Audit testing matched all accrued expenditure claimed as at 31 March 2015 of £109,167 to prime documents to assess whether it was incurred in the 2014-15 financial year. Audit testing identified that three accruals totalling £53,081 of this amount could not be incurred in the 2014-15 financial year, as follows: <ul style="list-style-type: none"> ○ £20,000 – This represents 5% retention on the value of works claimed by the contractor as per a payment certificate dated 30 March 2015. Payments to date actually made to the contractor do not include the retention. Officers stated that this retention will not be released and paid for a further twelve to eighteen months, following final inspection of the building to ensure free of defects etc. As the liability to make payment will occur only when this inspection is completed, it cannot yet be incurred and claimed as eligible expenditure (albeit the actual eligible construction works were completed by 31 March 2015). ○ £27,959 – This represents inspection fees due relating to the release of the above retention and on the same basis cannot have been incurred yet and cannot be eligible expenditure. ○ £5,122 – This represents similar inspection fees due relating to a second set of works carried out, noting that the related retention due to the contractor was not claimed as the expenditure cap was reached without need to include this expenditure. Officers confirm the inspection works were undertaken between September 2014 and September 2015, but at the time of audit, no payment had been made but an invoice for £5,122 had been received. Applying similar logic as above, this cannot be an expense incurred in the 2014-15 financial year if it is dependent on the completion of inspections occurring in the 2015-16 financial year. – Following our qualification on this matter, we are aware that Council officers will be separately writing to the Welsh Government concerning claiming retentions due to contractors and associated inspection fees incurable as part of the check allowing release of the retention. 	Quantified, -£53,081	N/A

Ref	Summary observations	Qualification	Amendment
5	<p>Families First (EYC14)</p> <ul style="list-style-type: none"> • Claim amended due to the following issue: <ul style="list-style-type: none"> – Test 7 of certification instruction EYC14 (14-15) requires the auditor to confirm the following: <i>“Are payments on account appearing on the statement those received from Welsh Government in respect of the statement period up to the date of the authority’s certificate?”</i> – In the course of the audit, it was noted that Welsh Government had already invoiced the Council for £14,817 to be repaid in respect of underspent 2014-15 funding. This was actually repaid on 10 August 2015, in advance of the CFO signature of the claim form. – In order for the claim form to disclose both the accurate eligible expenditure and balance due to Welsh Government after accounting for this repayment, amendment was necessary to the Grant Received line on the claim form • Claim qualified due to the following issue: <ul style="list-style-type: none"> – Test 5 of certification instruction EYC14 (14-15) requires the auditor to check whether all ‘virements’ have been made in accordance with the Welsh Government’s terms and conditions such as prior written approval. In particular, paragraph 15 to the CI specifies that <i>“Approval must have been sought in advance from the Welsh Government (WG) for any significant changes to the plan and related expenditure profiles agreed between the authority and the WG. A significant change would be: a proposed addition to a grant related activity; or discontinuation of a grant related activity. Authorities were allowed to make small ‘virements’ across headings as long as the changes were not more than 10% or £250,000 (the lower) of the budget category. Welsh Government have interpreted this as being within 10% (or up to £250,000) of either budget line/project, ie.a reduction of up to 10% of a budget line/project, and a corresponding increment of up to 10% of the size of the budget lines/projects that subsequently increased.”</i> – This requirement mirrors Paragraph 2.3 of Families First Financial Management Guidance 2012-17, latest version dated April 2014 and has been interpreted that Newport City Council are free to adjust grant allocations between projects up to a maximum value of the lower of 10% or £250,000 without requiring Welsh Government approval, to ensure the maximum grant funding covers expenditure incurred. 	Qualified – value not quantifiable	£-14,817

Ref	Summary observations	Qualification	Amendment
5 (cont)	<p>Families First (EYC14) - continuation</p> <ul style="list-style-type: none"> – The project analysis appearing on the detailed table of funding streams on page 2 of the claim indicates that the expenditure claimed exceeds 110% of the pre-populated budget allocations for two projects, declaring expenditure in excess of the 110% maximum valued at £11,843. – However, both projects are 'Disability' projects for which additional ring-fenced grant funding was made available specified in the award letter dated 31st March 2014 as a single allocation of £354,368. The Council then re-profiled and divided the overall allocation between 4 specific 'Disability' projects. If the overall allocation to 'Disability' projects is viewed as one allocation, then the expenditure claimed on all 4 projects together is within the 110% maximum, It is uncertain whether the Disability Project funding was intended to be treated as one allocation, or whether the re-profiling meant that each specific project became subject to the 10% / £250,000 threshold for obtaining approval for reallocations. – Council officers also provided copies of an email exchange between Welsh Government and the Council dated 30th November 2015 which indicates that this issue is recognised but that no action is to be taken. In particular, the following statements from Welsh Government officers were noted: <ul style="list-style-type: none"> ○ <i>“The ‘virements’ you informed us of were all approved and Welsh Government have no issue with your spend for 2014/15. You had also informed us of the changes at the account management meeting in January and this is mentioned in the meeting note”.</i> ○ <i>“We will not be taking this any further and if we had any issues with your proposed changes to spend, we would have let you know. The fact we did not agree the changes by email is an oversight on our side for which we apologise but all ‘virements’ were approved”.</i> – Given the above, the failure to comply with specific conditions relating to 'virements' was specified within the qualification letter as a less significant matter. 		

Ref	Summary observations	Qualification	Amendment
6	<p>S28a - Learning Disabilities + Frail Older Adults (HLG03)</p> <ul style="list-style-type: none"> • Claim amended due to the following issue: <ul style="list-style-type: none"> – Initially, two separate claim forms were provided covering each of the projects funded under S28a arrangements with Aneurin Bevan LHB. The certification instruction HLG03 (14-15) attached a pro-forma voucher which was compared to the claim forms provided for audit. Two issues were noted which required amendments, as follows: <ul style="list-style-type: none"> ○ The certification by the Council CFO was noted to be incomplete - references to certain legislation had been omitted ○ It was noted that the expenditure for multiple projects could be recorded on the same claim without need to separately declare on separate claims – One amended claim form was produced with the correct certification contained therein and covering both projects – No other amendments were necessary 	N/A	£0

Ref	Summary observations	Qualification	Amendment
7	<p>Teachers Pensions Return (PEN05)</p> <ul style="list-style-type: none"> • Claim amended for following two issues: <ul style="list-style-type: none"> – Section 2 of the Return includes a disclosure on the Refunds Made. Audit testing determined this was overstated by £20. – Section 3 of the Return discloses the 'Analysis of Contributions by Tier'. During the course of audit testing, it was determined that the analyses for Tiers 4,5 and 6 were incorrect due to miscalculations of the contributions deducted for a small number of teachers providing home tuition services. For the most part, this involved reclassifications between the 3 tiers but an overstatement of £888 was noted within Tier 4, which was corrected by the amendment of the table. • Claim qualified due to the following issues: <ul style="list-style-type: none"> – Test 7b of certification instruction PEN05 (14-15) requires the auditor to check, for a sample of teachers paid by the authority payroll, whether teachers' contributions have been deducted at the appropriate rate and disclosed within the appropriate tier in section 3 column 2 of the annual return – An unidentified system error has been noted which has resulted in the deduction of excess teachers contributions on at least one teacher's contributory salary. In the case of one teacher, in April 2014 only, the teachers' contribution had been deducted at the tier 3 rate of 8.3%, but should have been deducted at the tier 2 rate of 7.2%. The correct deduction was made for the subsequent 11 months in accordance with contributory salary received and all the other 55 teachers sampled were found to be paying contributions in line with salary received. The impact of the error noted is a £4.56 overstatement of the teacher's contribution relating to the excess 1.1% contribution deducted in error for the 1 month. – Extrapolating the error of £4.56 on a sample gives an error rate of 0.002%, which translates against the total population into a projected error across the claim of overstated teachers' contributions of £109.65. No amendments have been made to the claim for the known £4.56 error or the projected £109.65 error. – While the error rate calculated from total testing has very small impact overall, the authority has not identified how it occurred but believes changes made to the 'Teachers Pension scheme' from 1 April 2015 will completely negate the risk after this date. 	Quantified, £-110	£-868

Ref	Summary observations	Qualification	Amendment
7 (cont)	<p>Teachers Pensions Return (PEN05) - continuation</p> <ul style="list-style-type: none"> – Test 7a of certification instruction PEN05 (14-15) requires the auditor to check, for a sample of teachers paid by the authority payroll, whether contributory salaries have been extracted correctly from payroll records and disclosed within the appropriate tier in section 3 column 1 of the annual return. – The contributory salary and resulting teachers' contributions data by tier is built up from monthly payroll records. Sample testing, corroborated by enquiries to officers, confirmed that each month's pay should ordinarily result in a contribution deduction equal to one of the eight tiers – the exception being any back-pay where salary changes necessitate a contribution covering two tiers. Ordinarily, changes to teachers' pay would be made at the start of a payroll month, avoiding the need for the system to calculate a monthly deduction made up of two different contributions. – However, officers have confirmed that the Section 3 table disclosing contributory salaries and teachers' contributions by tier has been completed by annualising all 12 monthly salary payments and contribution deductions and then disclosing within the tier to which the teacher's annual contribution rate is closest. For many teachers, the rate of contribution changes throughout the year in accordance with changes to salary. Although the deducted contribution corresponds with the correct tier rate for the salary received in any given month, the calculation of an annual average contribution rate inevitably creates variances from the tier rates. For example, a teacher whose annual contribution rate was calculated to be 9.3% based on deductions of 8.3% and 9.5% has been included wholly in tier 4, 9.5%. – Consequently, there are minor differences between the total contribution deducted and the estimated contribution calculated from the annual contributory salary at each tier multiplied by the tier rate, 		

Ref	Summary observations	Qualification	Amendment
8	<p>Communities First – all Clusters (RG03)</p> <ul style="list-style-type: none"> • Claims amended for following issues: <ul style="list-style-type: none"> – Following submission of the claims for audit, review by Council officers identified a number of costs spread across a number of expenditure categories which were ineligible. Consequently, the eligible expenditure recorded on the claim form was revised to record the expenditure the Council were satisfied was eligible from their own review and sample testing undertaken accordingly. This relates to the West Cluster and North Cluster claims where third party groups are responsible for managing the Communities First activities and expenditure and where Council checks are made to validate the eligibility of claimed expenditure. – With respect to the Central Cluster claim only, an understatement of £6 in respect of miscalculated accommodation recharges was netted against a separate overstatement of £1,000 relating to ineligible expenditure claimed against the community involvement budget. Audit testing confirmed both issues were isolated and correction to the claim form would be sufficient. – All 4 claims had not been signed by the CFO, as required, and were subsequently re-signed correctly – incorporating the amendments cited above for the 3 amended Clusters. 	Qualified – value not quantifiable	£-3,917 (West) £-587 (North) £-994 (East)

8 (cont)

Communities First – all Clusters (RG03) - continuation

- All four claims qualified due to the following three issues, with the second and third reported as less significant:
 - Test 12 of certification instruction RG03 (14-15) requires the auditor to confirm that any new contract awards during the period were made in accordance with the terms and conditions of grant and the authority's standing orders and financial regulations. The initial sample testing undertaken on the East Cluster Communities First identified expenditure of over £25,000 charged against the 'Vibrant and Viable Places' budget line on the East Cluster claim. Enquiries to officers determined that the majority of the £60,650.50 'Vibrant and Viable Places' expenditure incurred across all 4 Clusters related to training courses procured from this one contractor, totalling £58,279.35. Audit review of the procurement process confirms that while the tendering and evaluation exercise was undertaken correctly, no formal signed contract was ultimately agreed between the Council and the contractor, breaching two of the Council's Contract Standing Orders, CSO 24 and CSO 26. Officers confirmed there were misunderstandings and miscommunications between departments resulting in the failure to issue a formal agreement with the contractor.
 - In addition, Paragraph 53 of certification instruction RG03 (14-15) refers to Appendix 9 of the Communities First Guidance, and provides salary ranges for different grant-funded positions. The funding bids initially submitted by the authority for 2014-15 costed a number of positions at higher salaries than those stated in the guidance. Enquiries with Council officers confirmed that on-costs for NI and superannuation had been included, that these bids had been approved by Welsh Government and accordingly the authority has incurred staff costs inclusive of on-costs. Review of Communities First Guidance failed to clarify whether the set salary ranges were inclusive or exclusive of salary on-costs.
 - Paragraph 58 of certification instruction RG03 (14-15) states that: "*Community Involvement Budgets should not exceed £25,000 per annum, the only exceptions being clusters with a population in excess of 15,000 which are allowed a maximum budget of £30,000*" The initial funding bids for all 4 Clusters did not exceed £25,000 for 'Community Involvement'. However, subsequent virements sought from and approved by Welsh Government meant that the Community Involvement budgets and subsequent costs incurred breached £25,000 for North Cluster (by £1,148) and West Cluster (by £3,185). The population of both affected Clusters is under 15,000 per Welsh Government website statistics. However, as the budget virements responsible for the excess expenditure were approved by the Welsh Government, the Council subsequently incurred costs within these approved budgets albeit in excess of the £25,000 cap.

Ref	Summary observations	Qualification	Amendment
9	<p>Local Transport Grant (TRA15)</p> <ul style="list-style-type: none"> • Claim amended for following issue: <ul style="list-style-type: none"> – Test 9 of certification instruction TRA15 (14-15) requires the auditor to confirm the following: <i>‘Have any amounts included in the statement by way of accruals and provisions have been paid by the date of the authority’s certificate?’</i> – Sample testing of accruals undertaken identified two errors where eligibility of expenditure claimed in 2014-15 could not be proven, as follows: <ul style="list-style-type: none"> ○ Total of £2,125 on the George St / Lower Dock Street project relating to £1,298 invoice for services provided in June 2015, £152 for which no invoice has been received to validate the spend is eligible in to claim in 2014-15 and £675 representing the difference between an accrual and the matched invoice received . ○ Total of £3,725 on Newport Strategic Network, Lliswerry Link project relating to goods ordered in 2014-15 but not delivered until 2015-16 – Extended sample testing of all accrued expenditure claimed did not identify any further issues and therefore the errors identified are deemed isolated 	Quantified, £-73,729	£-6,000

Ref	Summary observations	Qualification	Amendment
9 (cont)	<p>Local Transport Grant (TRA15) - continuation</p> <ul style="list-style-type: none"> • Claim qualified due to the following issues, the second being reported as a less significant issue: <ul style="list-style-type: none"> – Test 12 of certification instruction TRA15 (14-15) requires the auditor to confirm that any new contract awards during the period were made in accordance with the terms and conditions of grant and the authority's standing orders and financial regulations. Expenditure of £73,729 was identified within the claim for services to complete the missing link of cycleway from Lliswerry to Corporation Road, and the procurement of this contracted expenditure was reviewed against Council's Contract Standing Orders. – Enquiries made to officers failed to produce evidence to validate that the tendering and evaluation exercise was undertaken correctly. Officers resorted to asking employees of the contractor for their recollection on how the contract had been awarded, which elicited the response that the contractors were the preferred contractor for a separate, more extensive contract to build 'cycleways' in the Newport area and that the works funded by Local Transport Fund monies would have been added into this contract as a variation order. The contract covering these wider cycleway works has not been provided, nor has any information on its procurement – however, this is not relevant to the award of additional works outside the remit of the original contract and hence no further enquiries have been made. – Consequently, officers are unable to demonstrate compliance with Contract Standing Orders, i.e.; <ul style="list-style-type: none"> ○ The Council has been unable to demonstrate advertisement of invitations to tender, review of tender submissions or the confirmation of the ultimate award to the contractor; and ○ Officers have been unable to confirm that a formal signed contract was ultimately agreed between the Council and the contractor – This breaches CSO 7, CSO 9, CSO 11, CSO 24 and CSO 26 – Following our qualification on this matter, we are aware that Council officers have separately written to the Welsh Government providing further information on the circumstances of this contract award. 		

Ref	Summary observations	Qualification	Amendment
9 (cont)	<p>Local Transport Grant (TRA15) - continuation</p> <ul style="list-style-type: none"> – As noted previously, Test 12 of certification instruction TRA15 (14-15) requires the auditor to confirm that any new contract awards during the period were made in accordance with the terms and conditions of grant and the authority’s standing orders and financial regulations. Expenditure of £447,598 was identified within the claim for services to improve the junction of George Street and Lower Dock Street., and the procurement of this contracted expenditure was reviewed against Council’s Contract Standing Orders. – The Council provided evidence validating the tendering and evaluation exercise was undertaken correctly. A signed letter of intent dated 17 September 2014 by the authority to the contractor was also provided, stating that: <i>“The formal contract documentation will be prepared for signature as soon as possible and subsequently forwarded to you.”</i> – All works required were completed by 31 March 2015. However, the formal contract was not formally executed as a deed under the Council’s seal until 30 April 2015 per the signatures of the contractor on the copy retained by the Council as the contractor’s deed (with the contractors retaining the copy made under seal of the Council). – While this does not explicitly breach any of the Council’s Contract Standing Orders as no constraints on the timeliness of contract procurement are specified, the delay in formalising the contract until works have been completed is not considered to be good practice, particularly in resolving legal liability for any issues occurring in the period of construction. 		

Ref	Summary observations	Qualification	Amendment
10	<p>Free Concessionary Travel (TRA23)</p> <ul style="list-style-type: none"> • Claim amended for following issue: <ul style="list-style-type: none"> – Test 7 of certification instruction TRA23 (14-15) requires the auditor to test the following; <i>“Do entries in lines 4a-e correspond to the grant payments received in the 2014-15 financial year and agree to the four claims made by the authority?”</i> – Lines 4a to 4e relate to the 4 quarterly receipts from Welsh Government and a fifth receipt entitled ‘Quarter Zero’ which falls after Quarter 4. In the course of audit testing, it became evident that a fifth claim had been received after 31 March 2015 in relation to the 2014-15 financial year and had been omitted. Further information on paragraph 19 of CI TRA23 confirmed that audit work focused on ensuring: <ul style="list-style-type: none"> ○ That the total payment figure on the Annual Return agrees to the Qtr 0 receipt plus the four quarterly claims submitted to the Welsh Government by the authority; and ○ The total of lines 4a-e as included in the ‘2014-15 Totals’ column represents the total grant paid to the authority for the period. Auditors should confirm that this total is what the local authority has received up to the point of the CFO certificate. – As this fifth receipt pre-dated the CFO certificate, amendment to the claim was necessary. – Following guidance within the CI, a matching amendment was made to the operators costs declared on the claim form to ensure the balance of grant per the claim remained unchanged. • In addition, Test 16 certification instruction TRA23 (14-15) requires auditors to report on the level of SmartCard data being used by operators to support their claims. In particular: <ul style="list-style-type: none"> – The overall percentage of data being provided by the SmartCard system – A breakdown by operator of what percentage of data is provided via the SmartCard system – Any instances of where the source of the data cannot be verified. <p>As this is a specified report required under the CI to provide information to the grant-paying department within the Welsh Government, we do not regard this as a qualification.</p>	N/A	£0
Total effect of amendments to the Council		£-147,551	£-53,303

Recommendations

16. We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

Priority 1	Priority 2	Priority 3
Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Issue	Implication	Recommendation	Priority
<p>One claim submitted for audit was lost in transit to the WAO, necessitating resubmission for audit.</p>	<ul style="list-style-type: none"> Lost claims create potential delays to the audit process. 	<p>R1 Adherence to the agreed arrangements within the '<i>Joint Protocol on Grants Management</i>' should ensure all claims are provided on time for 2015-16 and are physically handed over to WAO audit staff</p>	<p>3</p>
<p>Wide number of improvements to the audit evidence submitted to support each audited grant claim have been noted, and fed back in individual Certification Feedback Notes – quality assurance arrangements are not consistently being applied per the '<i>Council Grant Claim Checklist</i>'.</p>	<ul style="list-style-type: none"> Improvements to the files provided for audit will strengthen the evidence supporting the claim and potentially allow reductions to audit time and fees incurred. 	<p>R2 WAO and Council Grants Co-ordinator should agree the steps necessary for 2015-16 to make improvements to files and ensure these are circulated to relevant officers. If necessary, amendments to the '<i>Joint Protocol on Grants Management</i>' and '<i>Council Grant Claim Checklist</i>' should be made to formalise expectations.</p>	<p>2</p>

Issue	Implication	Recommendation	Priority
<p>A number of claims were qualified on issues which were highlighted within certification instructions circulated to officers under the '<i>Joint Protocol on Grants Management</i>' – in some circumstances, gaps in the audit evidence required under the '<i>Council Grant Claim Checklist</i>' were the first indication of potential problems (e.g. 'virement' approvals, list of awarded contracts).</p>	<ul style="list-style-type: none"> Potential qualification issues can be identified early in the claim collation process and steps taken to minimise the impact – e.g. the liaison with Welsh Government in respect of qualifications for not obtaining approval for 'virements' 	<p>R3 The agreed arrangements within the '<i>Joint Protocol on Grants Management</i>' should ensure certification instructions are circulated to appropriate officers in time to take action and mitigate or minimise the risk accordingly – combined with a robust quality assurance of the audit evidence required under the '<i>Council Grant Claim Checklist</i>' to ensure potential issues are flagged prior to the CFO certifying the claim ready for audit certification</p>	<p>1</p>

Issue	Implication	Recommendation	Priority
<p>Specific issues were identified relating to proving that all procurement requirements specified under Council's Contract Standing Orders had been met – relating to more than one claim where expenditure incurred was under contract</p>	<ul style="list-style-type: none"> • As an explicit test required by Welsh Government across a number of grant claims, failure to evidence that contracts have been procured entirely in line with Contract Standing Orders is highly probable to result in qualification of the grant claim. • The Welsh Government retain discretion to take action as they best see fit in response to the qualification – in worst-case scenario, this could entail 'clawback' of grant funding. 	<p>R4 As well as ensuring that sufficient records exist to collate an accurate and complete list of all contracts awarded under which grant-funded expenditure is incurred, it would be prudent for officers to check that all Contract Standing Orders have been complied with for each contract as part of their routine preparation of grant claims, either periodically throughout the year, or in one exercise post-year-end as part of collating the claim for signature by the CFO.</p>	<p>1</p>

Issue	Implication	Recommendation	Priority
<p>Accrued expenditure was claimed on a number of claims comprising extant purchase orders accrued as supplementary creditors at year-end which should have been removed as not payable. The year-end exercise by the Council to sanitise the supplementary creditor and remove all non-payable costs was not consistently performed</p> <p>In addition, a number of costs not yet incurred had been accounted for in the financial year when they should have been accounted for in the subsequent year.</p>	<ul style="list-style-type: none"> • Amendments were necessary to correct the claimed expenditure, and in one claim to identify substitute eligible expenditure • If no amendments were agreed, qualification would become necessary 	<p>R5 The Council exercise to ensure the accruals made at year-end relate purely to valid expenditure that remains payable should be reviewed and performed consistently by all officers – where any doubt exists, such as in accounting for retentions on capital works, guidance from the grant-paying body should be sought as a matter of priority before the claim is signed by the CFO.</p> <p>[This issue was also raised in the 2013-14 report]</p>	<p>1</p>

Fees

17. Our overall fee for the certification of grants and returns has decreased slightly compared to the 2013-14 fees. The audit work and associated cost for the two new grant certifications, EDU18 and TRA15, is considerably more extensive than the work required on the three EDU grants no longer requiring certification in 2014-15, which if factored in to allow direct comparison of grants audited in both 2013-14 and 2014-15 gives fees of £82,187 for 2013-14 and £73,333 for 2014-15. The decrease of £8,854 represents nearly 11% of the 2013-14 fee charged to the Council.
18. Beyond a simple quantum of claim numbers, there are a number of other factors to account for.
- The audits of some grant claims were completed quicker than in previous years and with either a lower number of issues identified or with swifter resolution of the issues arising – the Flying Start EYC01 and EYC02 claims being prime examples.
 - Conversely, there have been increases in costs incurred on the audit of a number of grant claims, partially due to the nature of the issues identified and their resolution (examples being HC02 Substance Misuse Action Plan and HLG03 S28a Learning Disabilities + Frail Older Adults), and partially due to employing a richer skill mix of staff at higher charge-out rates to conclude audits (an example being EYC14 Families First),.
 - The relative skill mix employed on some audits has successfully reduced audit costs considerably in the instance of the Housing Benefit Subsidy BEN01 claim, ESF Pill Regeneration Initiative return EUR02 and the NNDR3 Return LA01.
19. Grants management and review time charged has increased to compensate for using this different skill mix. It must also be noted that regular liaison with the Council's Grants Co-ordinator and preparation and delivery of the training provided in March 2015 has also impacted on the planning undertaken.

Breakdown of fee by grant/return	2014-15	2013-14
Housing Benefit Subsidy (BEN01)	15,179	28,335
Schools Effectiveness Grant (EDU15) – <i>limited audit required in 2013-14 only</i>	0	318
Learning Pathways (EDU43) – <i>limited audit required in 2013-14 only</i>	0	262
Welsh in Education Grant (EDU44) – <i>limited audit required in 2013-14 only</i>	0	262
Traditional SBIG T3 21 st Century Schools (EDU18 – <i>new for 2014-15</i>)	3,103	0

Breakdown of fee by grant/return	2014-15	2013-14
European Structural Funds – Pill Regeneration Initiative (EUR01 / EUR02)	2,530	4,102
Flying Start (EYC01)	4,163	5,236
Flying Start Capital (EYC02)	2,070	4,564
Families First (EYC14)	5,863	3,258
Substance Misuse Action Plan Fund (HC02)	2,863	2,141
S.28A – Learning Disabilities + Frail Older Adults (HLG03)	2,954	1,813
NNDR Final Contributions (LA01)	3,217	4,641
Sustainable Waste Management (LA12)	2,133	1,647
Teachers Pensions (PEN05)	4,125	3,935
Communities First (RG03) x4	9,708	9,575
Social Care Workforce Development Programme (SOC07)	3,148	3,436
Local Transport Grant (TRA15) – <i>new for 2014-15</i>	2,903	0
Free Concessionary Travel (TRA23)	3,505	2,467
Grant Planning, Management + Review	14,348	7,037
Total fee	£81,812	£83,029



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