



**LIVERPOOL
CITY REGION**
COMBINED AUTHORITY

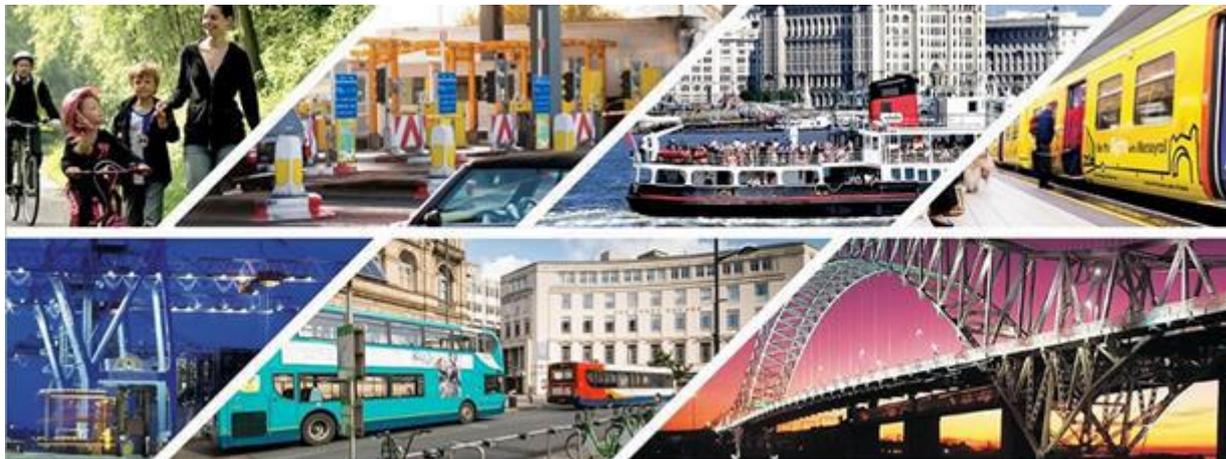
METROMAYOR
LIVERPOOL CITY REGION

Appendix A

INTERNAL AUDIT REPORT

Grant Auditing Arrangements at Local Authorities

Halton Borough Council



Report Prepared By:	Ruth Dudley Scheme Auditor
Report Reviewed By:	Dave Knott Audit Manager
Circulation:	
For Action:	Ken Keane Audit and Investigation Manager Halton Borough Council
For Information:	Mervyn Murphy Divisional Manager: Audit, Procurement and Operational Finance Halton Borough Council

Contents

	Page
1. Introduction and Background	2
2. Audit Objectives and Scope	2
3. Methodology	3
4. Audit Opinion	3
5. Key Risks	4
6. Next Steps	4
7. Findings, Risks and Recommendations	4
Appendix A - Definition of Audit Opinions	6
Appendix B - Definition of Recommendation Priority Levels	7
Appendix C - Grant Funding Declaration of Head of Internal Audit 2022-23	8

1. Introduction and Background

- 1.1 An audit review of the Grant Auditing Arrangements at Local Authorities was undertaken in accordance with the Internal Audit Plan.
- 1.2 The Liverpool City Region Combined Authority is the accountable body in respect of various sources of grant funding provided to its constituent Local Authorities. The Local Authorities are required to provide assurance to the Combined Authority that the funding has been defrayed in accordance with the relevant Funding Agreement and or government guidance. For 2022/23, an agreement was issued by the Combined Authority's Head of Internal Audit to this effect, and each has been signed and returned by each Local Authority's Chief Audit Executive (see Appendix C).
- 1.3 If there is not a robust process in place within each Local Authority for providing evidence of the assurance on the appropriate defrayment of grant funding, there is a risk that the Combined Authority does not meet the specific requirements and expectations set out in its Devolution Deal. This could lead to allegations of misappropriation of government monies, a potential risk of claw-back, and the knock-on effect to the City Region's reputation and ability to attract future funding.

2. Audit Objectives and Scope

- 2.1 The purpose of this audit is to examine how the Local Authorities provide assurance to the Combined Authority on the usage of grant funding for which they are responsible, but for which the Combined Authority is the accountable body. A review of the grant claim process has been undertaken, followed by an examination of the COVID-19 Additional Restrictions Grant (ARG) to determine that applications have been assessed correctly and any fraud concerns have been properly investigated. Sample testing of payments made via the Additional Restrictions Grant was also undertaken, so as to check for any anomalies that might warrant further review.
- 2.2 Each item of Internal Audit work informs the Head of Internal Audit's Annual Report and Opinion, which in turn informs the Annual Governance Statement. Our work is undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 2.3 The audit considered the following areas:
 - Documentation and record keeping;
 - The grant claim process including approval and claim verification;
 - Fraud risk management;
 - Scheme monitoring and reporting: and
 - Sample testing of ARG payments.

3. Methodology

- 3.1 This audit work was undertaken in compliance with the Public Sector Internal Audit Standards and was completed through:
- Preparation of a Terms of Reference document which detailed the key risks and internal controls under review, and was agreed with management;
 - Review of documented procedures;
 - Discussions with relevant members of staff;
 - Evaluation of key internal controls to mitigate the key risks which may jeopardise the achievement of objectives;
 - Testing of key internal controls so as to establish their effectiveness.
- 3.2 The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.
- 3.3 It is emphasised that the responsibility for a sound system of internal control rests with management, and work performed by Internal Audit may not be relied upon to identify all system weaknesses that may exist. In addition, Internal Audit cannot be relied upon to identify all circumstances of fraud or irregularity should there be any, although the audit methodology utilised is designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of control may not be proof against collusive fraud.

4. Audit Opinion

- 4.1 Internal Audit contributes to the overall governance of the organisation by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relation to the areas under review. Each item of Internal Audit work informs the Head of Internal Audit's Annual Report and Opinion, which in turn informs the Annual Governance Statement.
- 4.2 The Audit Opinion provided in this report is based on findings of this review and the work performed as described in the Objectives and Scope section of this report. The Audit Opinion reflects the impact on the organisation as a whole if the risks identified in the report were to materialise. Definitions of all Audit Opinions are provided at Appendix A of this report.
- 4.3 The organisational risk opinion for this audit is:

Negligible

No risks were identified within the review.

5. Key Risks

5.1 There were no key risks arising from the review.

6. Next Steps

6.1 The findings contained within this report were discussed at the LCR Heads of Internal Audit meeting, attended by Ken Keane, on 19 May 2022.

7. Findings, Risks and Recommendations

7.1 The Grant Auditing Procedure

7.1.1 The Audit and Investigation Manager at Halton Council provided a written procedure of Halton Council's grant auditing process.

On review this process is deemed to be reasonable, with key aspects of a grant process being included, such as:

- specific cost codes and account codes being created on Agresso
- the amount being claimed is reconciled with Agresso
- each invoice is reviewed to ensure it is bona fide
- expenditure is reviewed to ensure it is appropriate within the context of the project
- each invoice must be authorised before approval.

7.2 Review of the Grant Auditing Procedure

7.2.1 A sample of grants were provided by the Audit and Investigation Manager. These were reviewed against the aforementioned grant auditing process. All requirements were found to have been met.

7.3 Hospitality, Leisure and Retail Fund / Additional Restrictions Grant

7.3.1 The requirements detailed in the 'Hospitality and Retail Fund/ Additional Restrictions Grant Audit and Assurance Arrangements' Declaration, provided by the Combined Authority and returned by Mervyn Murphy on 26 January 2021, were reviewed for compliance.

7.3.2 An explanation of the arrangements made in relation to the processing and review of the Additional Restrictions Grant was provided by the Audit & Investigations Manager; along with two audit reports provided by Halton Council's Audit Team '2020.21 -17 Local Authority Discretionary Grant Fund' and 2020.21-43 Hospitality, Leisure and Retail Support Grants'.

7.3.3 It was pleasing to see that audit work had taken place to review these grants, and that Spotlight had been used to complete post award fraud checks.

7.4 Sample Testing of ARG Payments

- 7.4.1 For each Local Authority, testing of a sample of payments made by the Council under the ARG scheme was undertaken.
- 7.4.2 Company numbers and/or VAT registration numbers were checked online against public records to ensure that the number submitted was accurate and in the case of company number that the company was trading at the time of the grant payment. A minimum sample of 12 companies from each Local Authority were selected and their unique identifier (company/VAT registration) were checked. For the sample of Halton payments, there were no issues identified as all numbers checked were found to be valid and there were no instances of companies not trading at the time of the grant payment.
- 7.4.3 In addition to the sample testing, a matching exercise was undertaken to identify possible duplicates within the data that was provided. A spreadsheet is provided with this report that details these duplicates that merit further investigation.

Appendix A

Definition of Audit Opinions

Major

The risks identified in the review could, if they materialised, have a major impact on the Combined Authority as a whole.

Moderate

The risks identified in the review could, if they materialised, have a moderate impact on the Combined Authority as a whole.

Minor

The risks identified in the review could, if they materialised, have a minor impact on the Combined Authority as a whole.

Negligible

No risks were identified within the review.

Appendix B

Definition of Recommendation Priority Levels

High

The recommendation is essential to the management of risk within the area under review.

Medium

The recommendation is important to the management of risk within the area under review.

Advisory

The recommendation is a suggestion intended to enhance the existing management of risk within the area under review.

Appendix C

Grant Funding Declaration of Head of Internal Audit 2022-23

Halton Borough Council has established appropriate arrangements for the administration of grant funding received from the Liverpool City Region Combined Authority in respect of claims submitted in 2022-23.

These arrangements have been designed to provide assurance of a robust control environment which complies with the following guidance and key documents and any further documents issued or updates provided:

- The grant funding agreement established between the LCRCA and Halton Borough Council in respect of each funding stream
- Conditions for the use of the grant funding sent by the relevant government department, as set out in Grant Determination Letters or other similar document specifying the terms of the funding
- Any relevant guidance or supplementary documents issued by the relevant government department, such as frequently asked questions or other guidance notes
- Any guidance issued by the Combined Authority in respect of how the grant should be utilised, administered or claims should be approached.

The Internal Audit function has oversight of the arrangements in place in its organisation to administer the grant expenditure.

Prior to providing claims for payment to the Combined Authority, Halton Borough Council will have undertaken sufficient internal audit work, on a basis proportionate to risk, so as to provide reasonable assurance that robust systems are in place within the organisation to ensure that claims are accurate, truthful and align to the grant conditions.

Halton Borough Council will provide details of any fraud, bribery or corruption concerns that exist in respect of any funding stream for which the Combined Authority is the accountable body and will have records available for review by the Combined Authority should these be required.

Signed: *M P Murphy*

Name: Mervyn Murphy

Position: Divisional Manager – Audit, Procurement & Operational Finance

Date: 8 March 2022