

Audit Committee –14 June 2010

European Structural Fund Objective 2 Action Plan

Summary of report

Audit committee on 23 March 2010 resolved that an action plan be produced in the light of the findings of the report from Grant Thornton and be submitted to a future meeting of the Audit Committee for consideration:

Recommendation

1. To agree an action plan (**Appendix 1**).
2. To receive a future report from the Chief Executive confirming the implementation of the plan and achievement of the desired outcomes.
3. To receive the draft minutes of the Appointments Board meeting on 12 May 2010.



Paul Sheehan - Chief Executive
4 June 2010

Background

The special meeting of the audit committee held on the 23 March 2010 received and accepted a Grant Thornton report on the European Structural Fund Objective 2. The committee resolved;

“That action plan be produced in the light of the findings of the report and be submitted to a future meeting of the Audit Committee for consideration;

That the committee agree that the Chief Executive convene a meeting of the appointments board to consider officer performance in the matter any subsequent disciplinary action deemed necessary.”

The appointments board was convened on the 12 May 2010; their resolution is attached as an appendix to the report.

Response to the Grant Thornton Report

The draft action plan for this Committee's consideration is attached as **Appendix 1**. This responds to each of the recommendations in the Grant Thornton report.

It is important to note that, whilst this report has concluded that there were some significant weaknesses in the arrangements for the management of the ERDF grant programme, it should not be assumed that these weaknesses are prevalent elsewhere in the organisation. Indeed, some other substantial grant programmes have been subject to audit and inspection that have entirely validated the Council's robustness in this respect. The Action Plan includes actions to assess whether any remedial work is necessary elsewhere.

Resource and legal considerations

The assessment work necessary to achieve some of the actions in the proposed plan may lead to conclusions that some additional resources are necessary to secure sound future practice. Reports will be brought forward to the Committee as necessary.

Governance issues / Citizen impact

Walsall Council believes that it is responsible for ensuring that its business is conducted to the highest ethical and legal standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability Members and officers are responsible for putting in place proper arrangements for the governance of Walsall Council's affairs and the stewardship of the resources at its disposal.

Environment impact

None directly from this report

Performance and risk management issues

Openness is a prerequisite if stakeholders are to have confidence in the decision-making and management processes of the Council.

Equality implications

None arising directly from this report

Consultation

Chief Finance Officer, Monitoring officer, Executive Directors

Author

Paul Sheehan

Chief Executive

Issue	Recommendation	Agreed Action	Responsibility / Timescale
1. Risk Management – implementation (paragraphs 5.7 and 5.8)	The application of risk management procedures should be reinforced for all staff.	The corporate risk management strategy and guidelines; grants' manual; and partnership toolkit will be re-issued to all relevant staff involved in administering and/or managing grant claims/streams by letter. The letter will include the consequences of officers' failure to comply with these procedures, not excluding disciplinary action.	Head of Corporate Finance 30 September 2010
		All top 4 tier officers will be required to attend mandatory refresher training sessions on the corporate risk management strategy and guidelines; grants' manual; and partnership toolkit.	Chief Executive
		The above will be actioned by a joint letter from the Chief Executive and Chief Finance Officer	AD Finance / Head of Corporate Finance 30 September 2010
		A rolling programme of refresher training will be undertaken.	Head of Corporate Finance 30 September 2010

		All grant administrators will be required to attend the grants workshop to be jointly delivered by finance and grant thornton	Head of Corporate Finance 31 October 2010
2. Risk Management – identification (paragraph 5.6)	Staff should be made aware of the need to properly identify risks at an appropriate stage.	<p>The need to properly identify risks at an appropriate stage will be emphasised within the corporate risk management strategy and guidelines; grants' manual; and partnership toolkit.</p> <p>This will be communicated to all relevant staff as 1 above.</p>	Head of Corporate Finance 30 September 2010
3. Partnership arrangements (paragraphs 5.12 and 5.13)	The role of any sub-groups supporting the grant process should be clearly defined. They should also be provided with adequate resources and skills to ensure its remit can be effectively fulfilled.	<p>The role of any sub-groups supporting the grant process will be clearly defined in their terms of reference. The terms of reference will include the requisite resources and skills necessary for the groups.</p> <p>Executive Directors will ensure terms of reference are fit for purpose and are implemented effectively within their area of responsibility.</p>	<p>Executive Directors to ensure submission</p> <p>Executive Directors</p>

		<p>Terms of reference will require CMT approval. CMT will require assurance that the group has the adequate resources and skills to ensure its remit can be effectively fulfilled before they will award approval.</p> <p>These requirements will be detailed within the grants' manual; and partnership toolkit, along with a terms of reference template</p> <p>This will be communicated to all relevant staff as 1 above.</p>	<p>CMT</p> <p>Head of Corporate Finance 30 September 2010</p>
4. Programme management – resources (paragraph 5.15)	<p>The Council should ensure that the programme management team is adequately resourced and that staff are trained so that they are fully conversant with the funding requirements.</p> <p>Where there are significant changes in staffing a risk assessment should be undertaken to ensure policies and procedures are not compromised.</p>	<p>The programme management team has been disbanded. Future staffing arrangements for managing grants will include a thorough analysis of the skills and knowledge required from staff and the resources that they will need to enable them to deliver sound grant management.</p> <p>The requirement to complete a risk assessment, where there are significant changes in staffing will be included within the corporate risk management strategy and guidelines; grants' manual; and partnership toolkit, to ensure management of any transition and to ensure thorough understanding by new grant manager/ administrator of risks involved and what</p>	<p>Executive Director – Neighbourhood Services</p> <p>30 June 2010</p> <p>Head of Corporate Finance 30 September 2010</p>

		<p>action required as a result</p> <p>This will be communicated to all relevant staff as 1 above.</p> <p>Executive Directors will ensure that risks are being managed and that there is the evidence to demonstrate this.</p>	Executive Directors
5. Programme management – procedures (paragraphs 5.9 and 5.18)	<p>The following areas should be addressed for any grant claims:</p> <ul style="list-style-type: none"> • Robust appraisals should be undertaken of all third sector providers, including the financial stability and capability to deliver outcomes and provide relevant supporting documents. • Assistance should be provided by the Finance Department to properly assess the financial stability of third sector organisations. • Approvals of projects should be formally recorded in relevant minutes and documented in all cases. • Effective guidance and training should be provided to all third sector organisations to ensure 	<p>The head of corporate finance will ensure that the grants manual and partnership toolkit is updated to adequately reflect the issues raised, which include the requirement to ensure:</p> <ul style="list-style-type: none"> • A formal letter will be sent to all applicants for grants, making clear that written acceptance of the terms and conditions attached to a grant will be required before funds are released; and that continued compliance with the Council's requirements, and those of any other funding body, is necessary. • Robust appraisals for all third sector providers are undertaken, including the financial stability and capability to deliver outcomes and provide relevant supporting documents. 	Head of Corporate Finance 30 September 2010

	<p>they deliver required supporting documentation.</p> <ul style="list-style-type: none"> • Claims from third sector organisations should only be accepted after careful scrutiny to ensure compliance with grant terms. Claims should only be accepted at pre-determined dates. If incomplete or insufficient claims should be returned for re-submission. • Early and then regular monitoring of third sector organisations in line with grant requirements. EU funding requirements can be complicated and this is an essential control mechanism. • All annual statements of grant expenditure and supporting forms should be prepared on a timely basis and subject to relevant external audit within the required timescale. • The Council should ensure that it retains copies of, or has access to, all documentation in support of claims, to evidence an adequate audit trail. This should be reviewed whenever it is 	<ul style="list-style-type: none"> • Assistance is provided by Finance to properly assess the financial stability of third sector organisations following instructions to do this from the service managing the grant. Service areas will be reminded of their responsibility in this respect. • The grants manual will include the above including the correct method of undertaking a financial appraisal, in consultation with finance who will also sign off to say the appraisal is correct • Approvals of projects are formally recorded in relevant council minutes and documented in all cases. • Effective guidance and training is provided to all third sector organisations to ensure they deliver required supporting documentation. Attendance at such training will be mandatory for all such organisations applying for the council's grants. This will also be detailed within a guidance note which will be issued to such organisations as standard practice. • Claims from third sector organisations are only accepted after careful scrutiny to ensure compliance with grant terms and will only be paid when 	
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	<p>identified that a third sector organisation is about to enter administration.</p> <ul style="list-style-type: none"> We understand from discussions with officers that the action plan could be subject to inspection in the future by EU auditors. The Council should ensure that the requirements for retention of documents and audit trails satisfy requirements for any future inspections. 	<p>a full audit trail of evidence has been produced and presented with the claim. Claims will only be accepted at pre-determined dates. If incomplete or insufficient, claims will be returned for re-submission.</p> <ul style="list-style-type: none"> Early and then regular monitoring of third sector organisations in line with grant requirements is undertaken. All annual statements of grant expenditure and supporting forms will be prepared on a timely basis and presented to external audit within the required timescales. The Council retains copies of, or has access to, all documentation in support of claims, to evidence an adequate audit trail. This will be reviewed whenever it is identified that a third sector organisation is about to enter administration. The Council will ensure that the requirements for retention of documents and audit trails satisfy requirements for any future inspections. <p>Concerning third party organisations, a training session, a provider grants manual,</p>	<p>Executive Directors</p> <p>Head of Corporate Finance 31 October 2010</p>
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		<p>example documents and overview of Walsall council's process will be developed. A programme of training will be implemented for organisations currently receiving grants, supplemented by training for new grant applicants as they appear.</p> <p>Executive Directors must ensure compliance with the revised grants manual and put in place appropriate procedures to validate compliance.</p> <p>Executive Directors will ensure that the compliance procedures are being adhered to.</p> <p>This will be communicated to all relevant staff as 1 above.</p> <p>An option appraisal of corporate records management will be undertaken, including a centralised information / records store.</p>	<p>Executive Directors</p> <p>Head of Corporate Finance 30 September 2010</p> <p>Executive Directors (Resources) 31 December 2010</p>
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		Any failure to adhere to the corporate risk management strategy and guidelines; grants' manual; and partnership toolkit will be reported to CMT, and the audit committee.	Executive Directors May 2010 (immediate)
Finance support (paragraphs 5.22 and 5.23)	<p>The programme team should be encouraged to seek assistance from finance colleagues at an early stage.</p> <p>The level of support and assistant requested and provided by the Finance Department on all claims and supporting documents should be reviewed. Greater level of checking and scrutiny by Finance would be beneficial.</p>	<p>The programme team has been disbanded. The requirement for future programme teams and existing grant administrators to seek assistance from finance colleagues at an early stage (prior to grant bidding stage) will be reiterated within the grants' manual; and partnership toolkit. This will be communicated to all relevant staff as 1 above.</p> <p>All future programme management teams/ teams administering large funding streams will be required to have dedicated finance support which will need to be funded. The level of this support will be assessed on an individual funding stream basis prior to the bid for funds being made and reported to CMT for approval.</p> <p>The level of support and assistant available from finance on all claims, including levels of checking and scrutiny will be reviewed by the head of corporate finance. This will include the skills of current grant administrators, finance capacity to support this and best</p>	<p>Head of Corporate Finance 30 September 2010</p> <p>Head of Corporate Finance 31 October 2010</p> <p>Head of Corporate Finance 31 October 2010</p>

		<p>practice guidance on administration of grant claims.</p> <p>Following this, a further report will be presented to CMT/Audit Committee recommending a best practice model for future delivery of grants – which may be a small central team to provide support and guidance and to spot check grant activity and claims, alongside more dedicated support for larger funding streams; or further dedicated support within the service finance teams. A procedure needs to be developed within the grants manual to carefully outline what grants checks finance will do and what will be done in programme management. The level of this check has to be agreed.</p> <p>Mandatory financial skills assessment for all top 4 tier officers.</p> <p>Gaps in knowledge will require mandatory training</p>	<p>Head of Corporate Finance 31 October 2010</p> <p>Assistant Director Finance December 2010</p> <p>Executive Directors April 2011</p>
Internal Audit (paragraph 5.28)	There should be an Internal Audit review of procedures and systems for all significant grant funding streams at the inception stage of the grant and subsequently during ongoing	The head of internal audit will ensure that all significant grant funding streams are reviewed at the inception stage of the grant and subsequently during ongoing programmes as part of its risk assessed	Head of Internal Audit

	programmes.	<p>audit planning process.</p> <p>This requirement will be detailed within the grants' manual; and partnership toolkit.</p> <p>This will be communicated to all relevant staff as 1 above.</p>	<p>Head of Corporate Finance</p> <p>30 September 2010</p>
Liaison with GOWM (paragraphs 5.35 and 5.40)	The programme team and senior management should actively engage with GOWM to ensure relevant inspections are not deferred and feedback is obtained promptly.	<p>The Chief Executive will write to the Government Office of the West Midlands indicating that any planned inspections should proceed unless his personal authority is invoked to defer them.</p> <p>Future programme teams /grant administrators will actively engage with the funding administering body to ensure relevant inspections are not deferred and feedback is obtained promptly. The Executive Director accountable for the relevant grant will take a lead role in this.</p> <p>This will be reiterated to staff as part of 1 above.</p>	<p>Chief Executive</p> <p>May 2010 onwards</p> <p>Executive Directors</p>
Transparency (paragraphs 5.45 and	The Council should re-iterate to all officers the need to approach	The requirement for officers to approach communication with other parts of the council	Chief Executive 30 September

5.46)	communication with other parts of the council with transparency and openness (subject, of course, to appropriate confidentiality issues).	with transparency and openness (subject, of course, to appropriate confidentiality issues) will be reiterated to staff as part of 1 above. The local code of governance and employees' code of conduct will also be re-issued to all relevant staff at the same time.	2010 Monitoring officer 30 September 2010
6.4	A review of all major grant funding streams to be undertaken.	A high level review of grants based on a risk assessment has been undertaken existing control processes appear satisfactory, although a thorough review of all grants will be undertaken and recommendations made to each Executive Director for their respective areas of responsibility.	AD Finance Head of Corporate Finance 30 September 2010
6.5	The council should consider whether it is possible or desirable to recover the ineligible grant funding, excluded from the final grant claim, from the third sector organisations.	Work is already under way to assess the potential for clawback, led by the Executive Director for Neighbourhood Services. This will be reported through to Cabinet for decision where appropriate.	Executive Director Neighbourhood services September 2010

APPOINTMENTS BOARD

Wednesday, 12th May, 2010 at 2.30 p.m.

In a Conference Room, Council House, Walsall

Present

Councillor Bird (Chairman)
Councillor Andrew
Councillor Arif
Councillor Chambers
Councillor McCracken
Councillor I Shires

430/10 Apologies

Apologies were received from Councillor Oliver

431/10 Declarations of Interest

There were no declarations of interest.

432/10 Local Government (Access to Information) Act, 1985 (as amended)

Resolved

That the public be excluded from the meeting during consideration of the item set out in the private agenda for the reasons set out therein and Section 100A of the Local Government Act, 1972.

433/10 Private Session

Exclusion of Public

Resolved

That, during consideration of the remaining item on the agenda, the Committee considers that the item for consideration is exempt information for the reasons set out therein and Section 100A of the Local Government Act, 1972 and accordingly resolves to consider that item in private.

Local Authority Standing Orders Regulations

That the report of the Chief Executive having previously been circulated to each Member of the Board and that no officer having requested that any written representations be presented or that they have the opportunity to address the Board in person, the Board **Resolved**

The Council regrets that the individual and collective response of some officers to the management of the ERDF programmes resulted in a significant financial loss to the Council. Residents and Members of the Council had a right to expect higher standards of personal performance and collective responsibility from its officers and, in particular, from the most senior staff involved in the programme.

The Council concludes that some current officers of the Council could, and should, have done more to protect the Council's interests. However, other factors are also relevant. These include the role played by Government Office for the West Midlands, the Council's external auditors during the life of the programme, and also the role of officers who are no longer with the Council.

Accordingly, the Appointments Board:

- a) condemns the individual and collective response of the officers responsible for the establishment and control of the ERDF programme between 2003 and 2006, including the management of the close down and reporting to elected Members;
- b) instructs the Chief Executive to formally communicate the Council's displeasure to those officers referred to in the Grant Thornton report;
- c) requires the Chief Executive to consider the outcome of the Grant Thornton report and the resolution of this Board, in personal supervision of the performance of the key staff named, and take appropriate action.

Further, the Board resolved that the minute for this agenda item be made available publicly and be referred to the next appropriate Audit Committee.

Chairman

Date