



Certification of 2016/17 approved local authority grant claims and returns

Technical guidance note TGN/GEN/17

 **AUDIT SCOTLAND**

Prepared by Audit Strategy

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Foreword

Technical guidance notes are prepared by Audit Scotland's Audit Strategy business group to provide external auditors appointed by the Accounts Commission and Auditor General for Scotland with guidance on particular subjects or themes relevant to their audit appointment. They cover auditors' responsibilities to audit the financial statements, and review returns for whole of government accounts and local authority grant claims.

Technical guidance notes are available to external auditors from Audit Scotland's Technical reference library, and are also published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

This particular type of technical guidance note is published under authority delegated by the Assistant Auditor General to provide guidance on the review of approved grant claims and other financial returns that require to be certified as part of a local authority audit appointment.

While auditors act independently, and are responsible for their own conclusions and opinions, Audit Strategy has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the Code of audit practice therefore requires grant claims to be certified in accordance with technical guidance notes provided by Audit Strategy.** Auditors should advise Audit Strategy promptly if they intend not to follow any guidance provided in this technical guidance note.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of technical guidance notes or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in this note.

1 Introduction

Auditor certification requirement

1. External auditors are required by the [Code of audit practice](#) to review approved grant claims and other financial returns submitted to grant-paying bodies by local authorities to conclude whether they are fairly stated and in accordance with specified term and conditions.
2. Auditors are required to express their conclusion in a certificate attached to each claim. The review and reporting process performed by auditors is therefore described as certification of each claim.

Purpose of technical guidance note

3. This technical guidance note has been prepared by Audit Strategy to provide general guidance to auditors on the certification of claims and returns and explains the approach and procedures to be adopted. It
 - explains the arrangements for the certification of grant claims and other returns
 - provides a list of grant claims and other returns which external auditors are required to certify in 2016/17 under their audit appointment
 - considers the roles and responsibilities of grant-paying bodies, local authorities, Audit Strategy and appointed auditors
 - sets out the overall approach to be adopted by auditors
 - provides guidance on auditor reporting.
4. Audit Strategy also separately publishes a technical guidance note on each significant approved claim to provide auditors with specific guidance on certifying that claim.

Changes from 2015/16

5. There are no significant changes in this technical guidance note compared with 2015/16. .

Contact point

6. The contact point in Audit Strategy for this technical guidance note is Paul O'Brien, Senior Manager (Technical) - Pobrien@audit-scotland.gov.uk.

2 Auditor certification overview

Purpose of section

7. This section explains that the certification of approved grant claims and other returns by auditors is an assurance engagement.

Explanation

8. Although carried out under the overall audit appointment, the certification of grant claims and other returns is not an audit. It is a different form of engagement designed to provide reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. International standards on auditing, which apply to the audit of financial statements, therefore do not apply to certification work.

Assurance engagement

9. An assurance engagement is defined in international standards as one that is performed by a professional accountant in which a matter is evaluated against identified criteria. The objective is to express a conclusion that provides reasonable assurance about that matter. In the case of certification work, the matter is expenditure funded by the grant, and the criteria are the related terms and conditions.
10. Some terminology appropriate to an audit of the financial statements is not appropriate to certification work
 - While 'audit' is appropriate for the financial statements, 'certification' or 'auditor certification', (but not 'audit certification') is appropriate for claims and returns.
 - Auditors express an 'opinion' on the financial statements but reach a 'conclusion' on claims and returns, e.g. that the claim is fairly stated and in accordance with the relevant terms and conditions, except for any qualification in a covering letter.
 - The responsibility to consider issues 'material' to the audit of the financial statements is replaced by a duty to direct work to those matters which, having regard to guidance in the technical guidance note, in the auditor's view, might have a 'significant' effect on the claim or return.

Approved list

11. The list of grant claims and other returns which external auditors are required to certify in 2016/17 under their appointment as external auditors is provided at Appendix 1. .
12. A specific technical guidance note is prepared for each of the five significant grants claims and returns on the approved list. The other claims and returns on the approved list relate to only a

few authorities or occur rarely. A claim-specific technical guidance note is therefore not produced for them, and auditors should use the auditor action checklist at appendix 2.

13. Auditors are not permitted to certify any claim not on the approved list under their audit appointment. Auditors should contact Audit Strategy immediately if requested to certify a claim that has not been approved.

Claim-specific technical guidance notes

14. The claim-specific technical guidance notes will be published in accordance with Audit Strategy's publication schedule for technical guidance, which is available from the *Technical reference library*. The purpose of these technical guidance notes is to
 - provide guidance for auditors on the examination of the claim or return, including highlighting the main risk areas
 - set out and explain the preliminary procedures, tests and completion procedures that auditors should carry out
 - convey much of the background information which would otherwise have to be sought by auditors, thereby reducing overall certification costs to auditors and authorities
 - clarify for grant-paying bodies the nature of work undertaken by appointed auditors before giving their certificate.
15. The technical guidance notes include a tailored version of the auditor action checklist provided at Appendix 2 of this note.
16. Although auditors act independently, and are responsible for their own judgements and conclusions, it is expected that they will generally follow the guidance in technical guidance notes. It should be noted that compliance with the testing and reporting requirements in the technical guidance note on benefits subsidy is a condition of the Department for Work and Pensions.

3 Roles and responsibilities

Purpose of section

17. This section considers the roles and responsibilities of the following in respect of the certification of grant claims and other returns
- grant paying bodies
 - local authorities
 - Audit Strategy
 - appointed auditors.

Grant-paying bodies' responsibilities

18. Grant-paying bodies are responsible for specifying the terms and conditions in accordance with which an authority prepares its claim or return and gives its certificate. The terms and conditions should
- be clear as to the aims and objectives of the scheme, the period during which eligible expenditure will be supported and the way grant entitlement will be calculated
 - provide clear definitions of eligible expenditure and any performance measures on which entitlement to grant is based.
19. Grant-paying bodies are also responsible for providing claim forms and returns which
- are properly designed so as to collect the information necessary for the calculation of grant entitlement, or required by the return, but avoid collecting irrelevant information
 - are supported by clear and comprehensive notes to secure their consistent completion, particularly the basis of the entries required
 - incorporate appropriate certificates to be signed by the authority. The authority's certificate should provide at least as much assurance as that required of the auditor, but may also provide assurance on additional areas not appropriate to the appointed auditor's certificate.

Local authority responsibilities

20. Authorities are responsible for the proper and accurate preparation of claims and returns and for the establishment of effective administrative and financial systems. They need to satisfy themselves that they will be able to comply with the terms and conditions of a grant, including auditor certification requirements, before accepting it. Authorities are also responsible for exercising proper degrees of supervision and review of completed claims or returns before completing the authority's certificate.

21. The authority's certificate on a claim or return must be completed before it is passed to the appointed auditor for examination. Auditors should not certify claims or returns where the authority's certificate has not been completed.
22. Authorities are responsible for ensuring that claims and returns are
 - completed accurately and in accordance with the scheme terms and conditions
 - supported by systems of internal control, including internal audit, which are both adequate and effective in practice
 - completed in a timely fashion so that deadlines are met
 - supported by adequate working papers
 - subject to proper supervision and review prior to completion of the authority's certificate so that the assurance given is well founded.

Audit Strategy responsibilities

23. Audit Strategy is responsible for
 - maintaining the approved list of grant claims and other returns
 - agreeing drafts of claim-specific technical guidance notes with grant-paying bodies
 - undertaking appropriate consultation for new claims and returns
 - providing technical guidance notes to appointed auditors
 - responding to enquiries from auditors when applying technical guidance notes
 - dealing with enquiries from grant-paying bodies that arise after auditor certification where further reference to auditors may be called for.

Auditor's responsibilities

24. Appointed external auditors are required to
 - examine the claim or return and related accounts and records of the authority in accordance with this technical guidance note and the claim-specific technical guidance note
 - direct work to those matters that, in the auditor's view, significantly affect the claim or return
 - plan and complete their work in a timely fashion so that deadlines are met
 - form a conclusion as to whether the claim or return is fairly stated and in accordance with the relevant terms and conditions
 - complete the appointed auditor's certificate, qualified as necessary, in accordance with the guidance in this technical guidance note and submit it to the grant-paying body.
25. In carrying out their work, auditors should obtain such evidence and explanations from the authority as they consider necessary to form a conclusion. Where testing is required, the level of testing is a matter of professional judgment according to the particular circumstances of the

authority and the claim or return and the appointed auditor's assessment of risk. If a minimum sample size is specified in the relevant technical guidance note (e.g. the benefits subsidy claim), auditors should use professional judgment to determine whether testing over and above that specified minimum is required in the particular circumstances.

26. In assessing the extent to which amounts included in a claim or return are in accordance with the conditions under which it is made, the appointed auditor acts as a professional accountant and not a legal expert. In particular, these arrangements do not place a responsibility on appointed auditors to identify every error in a claim or return or maximise the authority's entitlement to grant.

4 Overview of auditor's approach

Purpose of section

27. This section provides an overview of the approach to certification work under the following headings
- planning and control
 - reliance on internal audit
 - sample sizes and sampling
 - supporting working papers
 - authority amendments.

Planning and control

28. Appointed auditors should agree with their authorities the claims and returns which are expected, their expected value, and a timetable for their preparation and certification. Auditors should plan to undertake their work so that certification deadlines are met.
29. Auditors should not seek extensions to auditor certification deadlines from grant-paying bodies; requests for extensions may be made only by authorities.
30. A claims and returns control record should be used by auditors at each authority to identify which of the approved claims and returns the authority expects to submit and to monitor their receipt and subsequent progress.

Reliance on internal audit

31. Appropriate use should be made of relevant internal audit work. This may be work carried out by internal audit as part of the normal programme or may be work specifically related to claims and returns agreed with the auditor. Work carried out by internal audit should be reviewed and evaluated, including an appropriate element of re-performance, the extent of which should be influenced by auditors' judgement of the adequacy and quality of internal audit generally. Responsibility for certifying the claim or return remains with the external auditor.
32. Where it is agreed that internal audit will carry out work specifically related to a claim or return, internal audit should be supplied with the relevant technical guidance note to ensure specific requirements are covered.

Sample sizes and sampling

33. Auditors should note that a reasonable level of assurance required for certification of claims and returns requires sample sizes for tests to be determined in relation to the claim or return itself and not in relation to the financial statements as a whole.
34. In selecting samples, the sampling methodology should be determined by the auditor using professional judgment. When sample sizes have been determined (e.g. the subsidy claim), auditor working papers should indicate how the sample has been selected.
35. Auditors should draw conclusions from test findings; it is not acceptable to advise grant-paying bodies of findings without an indication of their significance. When errors, defects or uncertainties are identified when carrying out sample checks, auditors should determine whether they are typical of the population or isolated examples.
36. Auditors should satisfy themselves that apparently insignificant or isolated errors which come to light are not indicative of widespread errors in the population, undertaking additional testing and action as necessary.
37. Isolated errors call for a simple amendment to the claim, while more general errors require extrapolation of findings indicating the level by which the claim is misstated leading to amendment or qualification as appropriate.

Supporting working papers

38. Authorities are required to provide supporting working papers which document the basis of the claim or return and the derivation of the information it contains. They should be kept in a form that will help the auditor and keep certification time to a minimum. The terms and conditions of some schemes include specific documentary evidence requirements.
39. Authorities should retain prime documents until at least such time as the claim certification is completed and entitlement to grant settled by the grant-paying body.
40. Auditors should liaise with authorities to ensure that their working papers are in a helpful form. A list of papers which authorities might produce is provided at Appendix 3.

Authority amendments

41. When auditor testing discloses errors, and the authority agrees that amendment of the claim or return is necessary, agreed amendments should be made by the authority, rather than by auditors. Auditors should therefore return it to the authority for amendment or replacement.
42. The amendment procedure is appropriate where auditors conclude the errors are isolated cases or has extrapolated findings and is satisfied that after amendment the claim or return is fairly stated and in accordance with the terms and conditions. A qualification to the auditor's conclusion in a covering letter is not required (though auditors should draw attention to the amendment where a draft claim has previously been submitted, e.g. housing benefit subsidy claim).

43. Auditors should consider whether errors identified indicate the possibility of mistakes in certified claims or returns for previous periods, and investigate as necessary.

5 Reporting the auditor's conclusion

Purpose of section

44. This section provides information on reporting the auditor's conclusion on the claim or return, including where a qualification requires to be included in a covering letter.

Overview

45. The form of auditor certificate to be given is normally included in the claim or return, unless the certification section of the claim-specific technical guidance note indicates otherwise. Where there is no appropriate auditor certificate included in a claim, the technical guidance note will provide the wording to be used which will be a tailored version of the auditor certificate provided at Appendix 4.
46. Where a technical guidance note is not provided for an approved claim or return, the auditor certificate at Appendix 4 should be used.
47. The auditor's certificate may be completed with or without a qualification to their conclusion.

Unqualified conclusion

48. Where in the auditor's professional judgment the claim or return is fairly stated and in accordance with the relevant terms and conditions, auditors should
- delete the words 'Except for the qualification in the attached covering letter dated';
 - sign and date the certificate.

Qualified conclusion

49. Where auditor testing has been completed and, in the auditor's professional judgment, the claim or return (or its amendment or replacement) is not fairly stated and in accordance with the relevant terms and conditions, auditors should
- prepare a covering letter explaining the qualification
 - enter the date of the covering letter to the certificate
 - sign and date the certificate.
50. A certified claim or return, taken with the auditor's covering letter, should enable the grant-paying body to process it after making adjustments or pursuing disputes directly with the authority. It follows that covering letters should be drafted with the recipient in mind and that auditors should
- draw attention only to matters which prevent the auditor certificate being given without qualification

- avoid explanation of form entries which are fairly stated and in accordance with the terms and conditions.
51. In exceptional circumstances, the covering letter can contain a disclaimer saying that the auditor is unable to reach a conclusion.
52. Audit Strategy does not intend that auditors should do significant additional work simply to allow an authority to avoid a qualification. While an authority should be afforded a reasonable opportunity to respond to initial findings, auditors are not required to do extensive work to resolve issues and should decide when it is appropriate to draw a line and issue a covering letter containing a qualification. Other than in exceptional circumstances, it is not acceptable to qualify a conclusion solely because the work cannot be completed before the auditor certification deadline.
53. Covering letters should be
- addressed to the appropriate grant-paying body at the address in the technical guidance note and refer to
 - the name of the authority
 - the claim or return
 - the certificate to which they relate
 - set out the facts, including the reasons for concern and any matters in dispute
 - quantify the effects of the subject of the qualification where possible. Where quantification is not possible, it should set out the facts for the grant-paying body's consideration including an indication of the extent of uncertainty and the reasonableness of estimates or assumptions made by the authority.
54. Auditors should avoid
- setting out facts but not stating the auditor's conclusion. For example, where the eligibility of expenditure for grant is uncertain, attention should be drawn to the uncertainty, not merely to inclusion of the expenditure in the claim
 - setting out test findings without drawing a conclusion. For example, where auditor testing identifies a missing invoice, it is not acceptable to simply advise that the invoice could not be found, leaving the grant-paying body unsure whether this is an isolated instance or indicative of a fundamental problem
 - providing insufficient detail to enable the grant-paying body to address the issue, for example, by failing to specify which approvals for schemes could not be found
 - seeking to amend or repeat the wording of the auditor certificate
 - using terminology inconsistent with the auditor certificate, for example, concluding that a claim or return or an entry is 'correct', or referring to an 'audited' claim
 - including a request that any queries on qualifications should be addressed to the auditor.

Appendix 1

List of local authority grant claims/returns approved for certification in 2016/17

Grant claim/return	Technical guidance note reference	Grant paying department
Housing benefit subsidy	TGN/HBS/17	Department for Work and Pensions
Education maintenance allowance	TGN/EMA/17	Scottish Government Fair Work Directorate
Criminal justice social work services	TGN/CJS/17	Scottish Government Justice Directorate
Belwin scheme for special financial assistance	TGN/BEL/17	Scottish Government Local Government Finance Division
Non-domestic rate income	TGN/NDR/17	Scottish Government Local Governance and Reform Analytical Division

The following grant claim/returns are also approved for certification in 2016/17 but relate to only a few authorities or occur rarely and therefore a claim-specific technical guidance note is not produced

Blind homeworkers	Grants to promote Home Energy Conservation Act 1996
Bus service operators	FE college income and expenditure statements
Housing development programme	Access funds
Provision of sites for travelling people	Grant assistance - Development of Tourism Act 1969

Appendix 2

Auditor action checklist

Preliminary procedures	Yes/No/N/A	Initials/date	W/P ref
<p>Have you checked that</p> <ul style="list-style-type: none"> the authority's arrangements for the completion of the claim/return appear adequate all relevant parts of the claim/return have been properly completed? the authority certificate bears the original signature of an appropriate officer as specified in the grant conditions? all arithmetic on the claim/return is correct? 			

Testing procedures	Yes/No/N/A	Initials/date	W/P ref
1 Have you agreed the entries on the claim/return to the authority's financial ledger or other underlying records?			
2 Are payments on account appearing on the claim/return those received in respect of the claim/return period up to the date of the authority's certificate?			
<p>3 Have you obtained evidence that</p> <ul style="list-style-type: none"> only eligible expenditure/payments is included? apportionments to the claim are on a fair basis? 			

Completion procedures	Yes/No/N/A	Initials/date	W/P ref
1. Have you included any qualifications to your conclusion in a covering letter?			
2. Have you sent a certified copy of the claim/return and any covering letter to the relevant paying department by the required deadline?			

Appendix 3

Local authority supporting working papers

Working papers provided by the local authority in support of each claim or return should include

- the date of preparation and the name of the officer preparing the working papers
- cross references to the entries on the claim or return to which the working paper relates
- cross references to the system or copies of systems printouts from which the information is taken
- copies of original approvals, subsequent variations and any other correspondence with the grant-paying body
- a reconciliation of income and expenditure figures in the claim or return to working papers and account codes
- details of payments made on account, supported by relevant advice notes from the grant-paying body
- a reconciliation of the balance on each claim or return with the accounts at the date of the chief finance officer's certificate
- a comparison of expenditure with approvals
- an explanation of significant variances from the previous period and from forecasts
- details of large journal transfers, with voucher references
- notes on the basis of any expenditure apportionment
- a description of relevant internal controls and a note on the extent of internal audit cover, with cross reference to internal audit files
- 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
- evidence of independent review of expenditure, which is included in the claim or return, but incurred by another body.

Appendix 4

Auditor's certificate

I/we have examined the entries in this claim/return and the related accounts and records of the authority in accordance with *Technical guidance note TGN/GEN/17* [and *Technical guidance note TGN/XXX/17*], and have obtained such evidence and explanations, and carried out such tests, as I/we have considered necessary.

Except for the qualification(s) set out in my/our letter dated....., I have concluded that the claim/return is

- fairly stated
- in accordance with relevant terms and conditions.

Signed..... (Appointed external auditor)

Date.....

The certificate above applies to

Name of local authority.....

Title of scheme/claim/return.....

Claim reference.....