

Certification of 2017/18 approved local authority grant claims and returns

Technical guidance note TGN/GEN/18



 **AUDIT SCOTLAND**

Prepared for appointed auditors in the local authority sector

29 March 2018

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.

Contents

1	Introduction	5
	Purpose of technical guidance note.....	5
	Approved list of claims and returns.....	5
	Claim-specific technical guidance notes	6
	Contact point	6
2	Summary of respective responsibilities	7
	Purpose of section.....	7
	Professional Support responsibilities	7
	Grant-paying bodies' responsibilities	7
	Auditors' responsibilities	8
	Local authority responsibilities.....	9
3	Overview of auditor's certification approach	10
	Purpose of section.....	10
	Planning and control.....	10
	Reliance on internal audit	10
	Sampling	11
	Supporting working papers.....	11
	Authority amendments	11
5	Reporting the auditor's conclusion	12
	Purpose of section.....	12
	Overview	12
	Unqualified conclusion	12
	Qualified conclusion	12
	Appendix 1	15
	List of local authority grant claims/returns approved for certification in 2017/18.....	15
	Appendix 2	16
	Auditor action checklist.....	16
	Appendix 3	18
	Local authority supporting working papers	18
	Appendix 4	19

Auditor's certificate 19

1 Introduction

Purpose of technical guidance note

1. The purpose of this technical guidance note from Audit Scotland's Professional Support is to provide external auditors appointed by the Accounts Commission with general guidance on the certification of grant claims and other financial returns.
2. Appointed auditors are required by the [Code of audit practice](#) to review, as part of their audit appointment, approved claims and returns submitted to grant-paying bodies by local authorities and provide reasonable assurance as to whether they are fairly stated and in accordance with specified term and conditions.
3. Auditors are required to express their conclusion in a certificate attached to each claim. The assurance process performed by auditors is therefore described as certification of each claim.

Extract from the code of audit practice

Other outputs

101. The following other outputs may require to be produced in the course of audits:

- Certification of grant claims prepared by audited bodies.

10.2. These other outputs are to be prepared in accordance with the appropriate Technical Guidance Notes produced by Audit Scotland.

4. This technical guidance note
 - explains the arrangements for the certification of grant claims and other returns
 - provides a list of grant claims and other returns which appointed auditors are required to certify in 2017/18 under their audit appointment
 - considers the roles and responsibilities of Professional Support, grant-paying bodies, local authorities, and appointed auditors
 - sets out the overall approach to be adopted by auditors
 - provides guidance on auditor reporting.

Approved list of claims and returns

5. The list of grant claims and other returns which external auditors are required to certify in 2017/18 as part of their audit appointment is provided at Appendix 1. The only change from 2016/17 is the removal of the criminal justice social work services claim which no longer requires auditor certification.

6. Auditors are not permitted to certify as part of their audit appointment any claim not on the approved list. Auditors should contact Professional Support immediately if requested to certify a claim that has not been approved.
7. Professional Support also separately publishes a technical guidance note on each of the four 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.

Claim-specific technical guidance notes

8. The claim-specific technical guidance notes
 - 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
 - clarify for grant-paying bodies the nature of work undertaken by appointed auditors before giving their certificate.
9. The technical guidance notes include a tailored version of the auditor action checklist provided at Appendix 2 of this note.

Contact point

10. The contact point in in Audit Scotland's Professional Support for this technical guidance note is Paul O'Brien - Pobrien@audit-scotland.gov.uk.

Technical guidance notes are available to appointed 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. 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.

2 Summary of respective responsibilities

Purpose of section

11. This section considers the responsibilities of the following parties in respect of the certification of grant claims and other returns
- Professional Support
 - grant paying bodies
 - appointed auditors
 - local authorities.

Professional Support responsibilities

12. Professional Support is responsible for
- maintaining the approved list of grant claims and other returns
 - working with grant-paying bodies to make sure the terms and conditions are clear and the claim/return format auditable
 - agreeing claim-specific technical guidance notes with grant-paying bodies
 - 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
 - undertaking appropriate consultation for new claims and returns.

Grant-paying bodies' responsibilities

13. The responsibilities of grant-paying bodies are summarised in the following table:

Responsibilities	Professional Support work with grant-paying bodies to ensure that.....
Specifying the terms and conditions in accordance with which an authority prepares its claim or return and gives its certificate	<p>the terms and conditions</p> <ul style="list-style-type: none"> • are 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.

Responsibilities	Professional Support work with grant-paying bodies to ensure that.....
Providing claim form/return templates	<p>the templates</p> <ul style="list-style-type: none"> • 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.

Auditors' responsibilities

14. The responsibilities of authorities are summarised in the following table:

Responsibility	Auditor actions
Plan	<p>Plan the work to ensure deadlines will be met.</p> <p>Direct work to those matters that, in the auditor's view, significantly affect the claim or return.</p>
Examine	<p>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</p>
Conclude	<p>Form a conclusion as to whether the claim or return is fairly stated and in accordance with the relevant terms and conditions</p>
Certify	<p>Complete the appointed auditor's certificate, qualifying any conclusions as necessary, in accordance with the guidance in this technical guidance note</p>
Submit	<p>Submit the certified claim/return to the grant-paying body by the set deadline.</p>

15. In carrying out these responsibilities, auditors should

- obtain such evidence and explanations from the authority as they consider necessary to form a conclusion
- carry out an appropriate level of testing, where required.

16. In terms of the scope of auditors' responsibilities
- in assessing compliance with the conditions, auditors are acting as a professional accountant and not as a legal expert
 - auditors are not responsible for
 - identifying every error in a claim or return
 - maximising the authority's entitlement to grant.

Local authority responsibilities

17. The acceptance of a claim or return for certification is subject to the auditor being satisfied that the local authority has fulfilled its responsibilities. The responsibilities of authorities are summarised in the following table:

Responsibility	Local authority actions
Pre-acceptance check	Be satisfied that they will be able to comply with the terms and conditions of the grant, including auditor certification requirements, before accepting the offer.
Establishment of systems	Establish effective administrative and financial systems, supported by systems of internal control, including internal audit, which are both adequate and effective in practice.
Compilation	Properly compile the claim/return paying due regard to the terms and conditions. Prepare adequate supporting working papers and retain them or auditor examination.
Self-review	Review the completed claim/return before completing the authority's certificate so that the assurance given is well founded.
Certify	Complete the authority's certificate before it is passed to the appointed auditor for examination.
Submission for review	Submit the claim/return to auditors by the set deadline.

3 Overview of auditor's certification approach

Purpose of section

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

Planning and control

19. 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
 - plan to undertake their work so that certification deadlines are met. Auditors should not seek extensions to auditor certification deadlines from grant-paying bodies; requests for extensions may be made only by authorities
 - maintain a control record 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

20. Auditors should make appropriate use of relevant internal audit work. This may be work
- carried out by internal audit as part of the normal programme; or
 - specifically related to claims and returns agreed with the auditor. Auditors should provide internal audit with both this technical guidance note and the relevant specific technical guidance note to ensure requirements are covered.
21. Auditors should review and evaluate the work carried out by internal audit. This includes 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.
22. Responsibility for certifying the claim or return remains with the external auditor.

Sampling

23. In selecting samples, the sampling methodology should be determined by the auditor using professional judgement according to the particular circumstances of the authority and the claim or return and the appointed auditor's assessment of risk. Sample sizes for tests should be determined in relation to the claim or return itself and not in relation to the financial statements as a whole. When sample sizes have been determined (e.g. the subsidy claim), auditor working papers should indicate how the sample has been selected.
24. If a minimum sample size is specified in the relevant technical guidance note, auditors should use professional judgement to determine whether testing over and above that specified minimum is required in the particular circumstances.

Drawing conclusions

25. 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.
26. 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.
27. Auditors should consider whether errors identified indicate the possibility of mistakes in certified claims or returns for previous periods, and investigate as necessary.

Supporting working papers

28. Auditors should liaise with authorities to ensure that their supporting working papers are in a helpful form. A list of papers which authorities might produce is provided at Appendix 3.
29. 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.

Authority amendments

30. When auditor testing identifies errors, and the authority agrees the amendment, they should be made by the authority, rather than by auditors. Auditors should therefore return it to the authority for amendment or replacement. This is appropriate where auditors
 - conclude the errors are isolated cases; or
 - have extrapolated findings and are satisfied that after amendment the claim or return is fairly stated and in accordance with the terms and conditions.
31. A qualified conclusion is not required in these circumstances

5 Reporting the auditor's conclusion

Purpose of section

32. This section provides information on reporting on the claim or return, including where a qualified conclusion requires to be included in a covering letter.

Overview

33. 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.
34. Where a technical guidance note is not provided for an approved claim or return, the auditor certificate at Appendix 4 should be used.
35. The auditor's certificate may be completed with or without a qualified conclusion.

Unqualified conclusion

36. Where in the auditor's professional judgement, the claim or return is fairly stated and in accordance with the relevant terms and conditions (which may be after the authority has made and agreed amendment), auditors should
- delete the words 'Except for the qualification in the attached covering letter dated';
 - sign and date the certificate.
37. Auditors do not have to draw attention to any agreed amendments unless a draft claim had previously been submitted to the grant-paying body (e.g. housing benefit subsidy claim) in which case the covering letter should detail the amendments.

Qualified conclusion

Overview

38. Where in the auditor's professional judgement, the claim or return is not fairly stated and in accordance with the relevant terms and conditions, a qualified conclusion is appropriate. Auditors should
- prepare a covering letter explaining the qualified conclusion
 - enter the date of the covering letter to the certificate
 - sign and date the certificate.

Forming a conclusion

39. Where testing identifies that the claim or return (even after any agreed amendments) is not in accordance with the relevant terms and conditions, auditors should qualify their conclusion.
40. While an authority should be afforded a reasonable opportunity to respond to test findings, auditors are not required to do extensive work to resolve issues and should use judgement to decide when it is appropriate to draw a line and issue a covering letter containing a qualified conclusion.
41. 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.
42. In exceptional circumstances, auditors may have to issue a disclaimer saying that the auditor is unable to reach a conclusion.

Covering letter

43. The covering letter should enable the grant-paying body to process the certified claim/return after making adjustments or pursue 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 a qualified conclusion
 - avoid explanation of form entries which are fairly stated and in accordance with the terms and conditions (unless amendments to previously submitted draft returns have been made).
44. The key required features of the covering letter are summarised in the following table:

Feature	Auditor action
Addressee	Address the letter to the appropriate grant-paying body at the address in the specific technical guidance note.
Information on claim	Refer to <ul style="list-style-type: none"> • the name of the authority • the claim or return • the certificate to which they relate.
Set out facts	Set out the facts, including the reasons for any concern or any matters in dispute
Quantify	Quantify the effects of the subject of the qualified conclusion where possible. Where quantification is not possible, 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.

45. Matters that have arisen in the past that auditors should avoid when preparing the covering letter are summarised in the following table:

Avoid	Examples
Do not set out facts without stating a conclusion	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.
Do not set out test findings without stating a conclusion	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.
Do not provide insufficient detail so that the grant-paying body is unable to address the issue.	Failing to specify which approvals for schemes could not be found.
Do not amend the wording of the auditor certificate (other than as set out in this technical guidance note) or use inconsistent terminology.	Concluding that an entry is 'correct', or referring to an 'audited' claim.
Do not invite queries directly	Including a request that any queries on qualified opinions should be addressed to the auditor.

Appendix 1

List of local authority grant claims/returns approved for certification in 2017/18

Grant claim/return	Technical guidance note reference	Grant paying department
Housing benefit subsidy	TGN/HBS/18	Department for Work and Pensions
Education maintenance allowance	TGN/EMA/18	Scottish Government Fair Work, Skills and Employability Directorate
Belwin scheme for special financial assistance	TGN/BEL/18	Scottish Government Local Government and Analytical Services Division
Non-domestic rate income	TGN/NDR/18	

The following grant claim/returns are also approved for certification in 2017/18 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 qualified conclusions 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/18* [and *Technical guidance note TGN/XXX/18*], 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.....