



Auditor certification of 2016/17 Bellwin scheme claims

Technical guidance note TGN/BEL/17

 **AUDIT SCOTLAND**

Prepared by Audit Strategy
20 April 2017

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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 such notes.

Overview

Key points on this claim		
Description of scheme		
A scheme to provide special financial assistance to authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies.		
Claim reference	Deadline to auditors	Auditor submission deadline
N/A	Advised in activation letter (normally within four months of beginning of emergency incident)	Advised in activation letter (normally within eight months of beginning of emergency incident)
Risk areas		
1	Eligible expenditure is not included in the claim.	
2	Ineligible expenditure is included in the claim.	
3	Insurance excesses are claimed above the specified limit.	
Address for certified claim		
Laura McKendrick, The Scottish Government, Local Government and Analytical Services Division 3-J North Victoria Quay, Edinburgh, EH6 6QQ		
Technical guidance note publication date and relevant year	Audit Strategy contact point	
20 April 2017 for 2016/17 claims	Tim Bridle Tel 0131 625 1793 E-mail: tbridle@audit-scotland.gov.uk	

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.
3. One of the approved claims that auditors are required to certify is in respect of the *Bellwin scheme of emergency financial assistance to local authorities*.

Purpose of technical guidance note

4. This technical guidance note has been prepared by Audit Strategy to provide guidance on auditor certification of the 2016/17 Bellwin scheme claims. The approach set out in this technical guidance note has been agreed with the Scottish Government.
5. Procedures that auditors should carry out in respect of certifying 2016/17 Bellwin scheme claims are set out at section 2 (preliminary procedures), 3 (testing procedures) and 4 (completion procedures) of this technical guidance note and summarised in Appendix 1. Although this note provides a concise summary of the scheme, it may still be necessary for auditors to refer to the source material listed at Appendix 2 on which this note is based.
6. Auditors should also refer to the general guidance on the certification of claims provided by technical guidance note TGN/GEN/17.

Changes from 2015/16

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

Nature of scheme

8. The Bellwin scheme was established under section 155 of the *Local Government and Housing Act 1989* to give special financial assistance to local authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies. The terms and conditions are set out in [Bellwin scheme - guidance notes for claims](#) issued in April 2013.
9. The key criterion for the scheme is the safeguarding of life and property and the prevention of suffering or severe inconvenience in a local authority's area or among its inhabitants. It has most frequently been activated for the effects of severe weather such as flooding or storm damage, although it may be invoked for other types of emergency incident.

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10. The Bellwin scheme reimburses authorities for additional revenue expenditure incurred in excess of an annual threshold. This threshold is in recognition of the fact that authorities are expected to make contingency provision for such events in their budgets. They have a general duty to deal with emergencies and there is no automatic entitlement to special assistance. It must be demonstrated that an undue financial burden would otherwise fall on the authority.
 11. The scheme is discretionary, and authorities are invited but not obliged to make a claim. It should be noted that, if the scheme is activated more than once during the year, the threshold is compared with the cumulative expenditure.

Activation of the scheme

12. Where an authority incurs expenditure as a result of an emergency incident which it believes falls under the terms of the scheme, and wishes to make a claim, it is required to inform the Scottish Government within one week of the commencement of the incident.
13. Following approval by Scottish Ministers, the Scottish Government announces that a scheme has been activated within three weeks of being contacted by an authority, and notifies the relevant authority and Audit Strategy.
14. In certain circumstances, where it is clear that an emergency has taken place, the Scottish Ministers may activate a scheme in which case the Scottish Government writes to the relevant authorities to notify them.
15. In either case, Audit Strategy subsequently advises the relevant auditors.

Funding arrangements

16. Entitlement to grant is calculated at the rate of 100% of eligible net expenditure incurred above the threshold, which is 0.2% of the net revenue budget.
17. An interim payment of 90% of the net eligible claim is paid following receipt of a claim certified by the director of finance. The balance is paid (or any overpayment recovered) on receipt of a final claim certified by external auditors.

Submission of claim to auditor

18. Authorities are required to submit the interim claim to the Scottish Government and external auditors within four months of the emergency incident. The date is specified in the activation letter sent to the authority by the Scottish Government.
19. A separate claim form should be submitted for each incident, where the cumulative affect has breached the threshold.

Contact point

20. The contact point in Audit Strategy for this technical guidance note is Tim Bridle, Manager - Local Government (Technical) - tbridle@audit-scotland.gov.uk or 0131 625 1793.

2 Preliminary procedures

Purpose of section

21. This section sets out the preliminary procedure that auditors should carry out when they receive the claim form.

Preliminary procedure 1 - Completion of form

Auditors should check that

- the authority's arrangements for the completion of the claim appear adequate
- all relevant parts of the claim have been completed, including certification by the director of finance
- all arithmetic on the claim is correct
- the entries on the claim agree with the authority's financial ledger or other underlying records

22. A copy of the claim form to be used for both the interim and final claim is provided by the Scottish Government at Annex D of the [Bellwin scheme - guidance notes for claims](#). A further copy of the claim form is sent to the authority when a scheme is activated.
23. The claim form is divided into the following seven parts
- Part 1 requires general details, including the date and brief details of the incident.
 - Part 2 provides notes on completion of the form.
 - Part 3 requires authorities to confirm that expenditure claimed is eligible and that the incident has caused an undue financial burden, or to provide an explanation where that is not the case.
 - Part 4 gives financial details and should show the gross amount of expenditure claimed, along with any off-setting receipts and the consequent net expenditure.
 - Part 5 should show insurance excesses claimed.
 - Part 6 should show the total amount claimed (i.e. the total of part 4 and part 5).
 - Part 7 is the certificate to be signed by the director of finance

3 Testing procedures

Purpose of section

24. This section sets out the testing procedures that auditors should carry out on the claim form.

Test 1 - Eligible expenditure

Auditors should obtain evidence that eligible expenditure is included in the claim.

25. Part 4 of the claim form should show the total gross eligible expenditure, any receipts (e.g. sale of timber, etc.) and the net total. It requires to be supported by high level summary documentation confirming that the claim meets the overall criteria of the scheme, including a brief description of the type, date and amount of expenditure. Authorities should have, but are not required to submit, an analysis of this information with accompanying reports, listing the damage sustained and works undertaken in response.
26. Section 1 of Annex A to the guidance notes states that eligibility is restricted to revenue expenditure incurred
- within a two month period from the date of the incident (or as agreed between the local authority and the Scottish Government)
 - in respect of immediate action to safeguard life or property, or to prevent suffering or severe inconvenience, in the authority's area or among its inhabitants
 - as a result of the incident specified by the activation of the scheme.
27. Annex A also provides examples of eligible expenditure under the scheme. In summary, this includes
- setting up temporary premises for non-administration purposes, e.g. removal costs, increased rent, heating, cleaning etc, and hire of additional vehicles, plant and machinery
 - removal of all trees and timber, initial land drainage works to clear debris and unblock watercourses, and the removal and replacement of street lighting, street signs etc damaged by the incident which may be dangerous to the public
 - initial repairs to highways, pavements and footpaths, where the surface must be replaced at the time or temporarily patched, and other work to clear debris causing obstruction or damage to these areas
 - additional temporary employees or contractors to work on the emergency or replace permanent employees diverted from normal work, and special overtime for employees, either during the emergency for overtime worked on the emergency itself, or afterwards to catch up on work from which they were diverted by the incident
 - emergency works required to safeguard dangerous structures

- evacuating people from dangerous structures and temporary rehousing, providing emergency supplies of food and other provisions and key services to affected communities during the period of the incident, and maintaining key communications, including clearing roads or providing emergency information to affected communities
- costs of temporary mortuaries
- legal, clerical and other charges incurred on the above work.

Test 2 - Ineligible expenditure

Auditors should obtain evidence that ineligible expenditure is excluded from the claim

28. Section 2 of Annex A of the scheme guidance notes lists expenditure that is ineligible under the scheme.
29. Ineligible expenditure includes costs which are normally insurable, whether by the local authority or any other party. The benchmark used by the Scottish Government is the Zurich Municipal SELECT policy. Authorities whose policy may bear less risk than this will still be bound by its definition of normally insurable risks for the purposes of eligible expenditure for the claim. Authorities whose policies include cover for greater risks than this policy should exclude from their claim all expenditure for which they are covered and will be compensated. Insurable costs include
- the shoring-up or dismantling of damaged buildings
 - damage to the structure of private houses and buildings which are normally covered under household/private policies.
30. Other items of ineligible expenditure listed at section 2 include
- capital expenditure
 - loss of income (e.g. from facilities closed as a result of the emergency incident)
 - the normal wages and salaries of the local authority's regular employees even when diverted from their usual work
 - longer term works of repair and restoration of damaged but not dangerous structures
 - any element of betterment
 - expenditure eligible for any other specific grant.

Test 3 - Insurance excesses

Auditors should obtain evidence that the amounts claimed for insurance excesses are below specified limits.

31. Although costs which are normally insurable are not eligible, an element for insurance excesses is considered eligible under the scheme. Authorities may include in part 5 of the

claim the lower of the actual insurance excesses and the following specified limits set out in Annex B of the guidance notes

- £250 for each house owned by the local authority and/or its contents
- £500 for each general/educational building and/or its contents
- £1,250 for each industrial property and/or its contents.

4 Completion procedures

Purpose of section

32. This section sets out the completion procedures that auditors should carry out after they have conducted testing of the claim form.

Completion procedure 1 - Conclusion on claim

Auditors should conclude whether the claim form is

- **fairly stated**
- **in accordance with the terms and conditions in the *Bellwin scheme - guidance notes for claims*.**

33. Auditors should
- evaluate the results of their testing procedures set out in section 3
 - undertake additional procedures where they judge that to be necessary
 - agree with the local authority any amendments necessary to correct errors found in the year end statement. This is appropriate where auditors conclude the errors are isolated or have extrapolated findings and are satisfied that after amendment the claim or return is fairly stated and in accordance with the business model. A qualification to the auditor's conclusion in a covering letter is not required though auditors should draw attention to the amendment.

Completion procedure 2 - Auditor's certificate and covering letter

Auditors should complete the auditor's certificate and include any qualifications to their conclusion in a covering letter.

34. The claim form contains an external auditor's report; however, this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to this technical guidance note.
35. The auditor's certificate states that auditors have examined the entries in the claim and accounts and records of the authority, and have obtained such evidence and explanations, and carried out such tests, as they considered necessary.
36. Auditors should complete the auditor's certificate and any covering letter in accordance with the guidance provided in TGN/GEN/17. Where in the auditor's professional judgment the claim or return is fairly stated and in accordance with the terms and conditions, auditors should
- delete the words 'Except for the qualification in the attached covering letter dated';

- sign and date the certificate.
37. Where auditor testing has been completed and, in the auditor's professional judgment, the claim is not fairly stated and in accordance with the 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.

Completion procedure 3 - Submission of certified claim

Auditors should submit the claim, completed auditor's certificate, and any covering letter by the required date to the Scottish Government.

38. Auditors should submit the claim, completed auditor's certificate, and any covering letter, within eight months of the incident (or other date specified in the activation letter) to

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Appendix 1

Auditor action checklist

Preliminary procedures		Yes/No/N/A	Initials/date	W/P ref
1	Have you checked that <ul style="list-style-type: none"> the authority's arrangements for the completion of the claim form appear adequate? all relevant parts of the claim form have been completed, including certification by the director of finance? all arithmetic on the claim form is correct? the entries on the claim agree with the authority's financial ledger or other underlying records? 			

Testing procedures		Yes/No/N/A	Initials/date	W/P ref
1	Have you obtained evidence that eligible expenditure is included in the claim?			
2	Have you obtained evidence that ineligible expenditure is excluded from the claim?			
3	Have you obtained evidence that the amounts claimed for insurance excesses are below specified limits?			

Completion procedures		Yes/No/N/A	Initials/date	W/P ref
1	Have you concluded whether the claim form is <ul style="list-style-type: none"> fairly stated in accordance with the terms and conditions in the <i>Bellwin Scheme - guidance notes for claims?</i> 			

Completion procedures	Yes/No/N/A	Initials/date	W/P ref
2 Have you completed the auditor's certificate and included any qualifications to your conclusion in a covering letter?			
3 Have you submitted the claim, completed auditor's certificate, and any covering letter by the required date to the Scottish Government?			

Appendix 2

Rules for completing claim

The following represent key sources of guidance in respect of the claim and can be accessed by following the hyperlinks or downloaded from Audit Scotland's *Technical reference library*

- [Bellwin scheme - guidance notes for claims](#)
- [2016/17 Bellwin threshold levels.](#)

Appendix 3

External auditor's certificate

I/we have examined the entries in this Bellwin scheme claim for 2016/17 and the related accounts and records of [insert name of council] in accordance with *Technical guidance note TGN/GEN/17* and *Technical guidance note TGN/BEL/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 is

- fairly stated
- in accordance with the terms and conditions set out in the *Bellwin scheme - guidance notes for claims*.

Signed..... (Appointed external auditor)

Date.....