Good practice in grant schemes

Grant-paying bodies
The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our work covers local government, housing, health and criminal justice services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we monitor spending to ensure public services are good value for money.

About this briefing

1 Grant-paying bodies may require certification by an appropriately qualified and independent accountant of authorities’ claims for grant or subsidy, and of other returns of financial information. Certification is one option for providing appropriate assurance as to the basis of an authority’s entitlement to grant or subsidy or, in the case of a return, as to the information provided. Grant-paying bodies, authorities, the Audit Commission and its appointed auditors all have an interest in ensuring that claim and return certification procedures operate efficiently and effectively and with a common understanding by all parties of their respective responsibilities.

2 The Commission has committed itself to implementing the proposals in its ‘think piece’ for reducing the level of certification work, and to encouraging grant-paying bodies to reduce the number of claims and returns that require auditor certification. The Commission has also published a Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns (Audit Commission – available from www.audit-commission.gov.uk) to assist all parties in the process by summarising their respective responsibilities and explaining where those responsibilities begin and end.

3 The Commission makes certification arrangements when requested to do so by a body to which it appoints the auditor, in accordance with procedures it determines. These requests follow from grant-paying bodies including an auditor certification requirement in the terms and conditions for their schemes.

4 The Commission has prepared this briefing setting out what it considers to be good practice for grant-paying bodies in devising and administering grant schemes. The good practice measures set out in this briefing provide a framework against which the Commission will judge whether or not to make certification arrangements in any particular case.

Key elements of good practice for grant-paying bodies

5 An effective grant scheme is dependent on the grant-paying body being clear as to the scheme’s aims and objectives. These should then be translated into robust and practicable terms and conditions, in accordance with which an authority receives funding and prepares its claim or return. The grant-paying body is responsible for putting claim and return arrangements in place. The completion by authorities, and auditor certification, of claims and returns is intended to provide appropriate assurance as to the basis of an authority’s entitlement to grant or subsidy or, in the case of a return, as to the information provided.
The requirements for the preparation and certification of claims and returns need to be seen from the outset as an integral part of any grant scheme. Too often, consideration of the detail of claim forms and returns and their certificates is deferred because it is the last stage in the process. However, the process of preparing claim forms and returns often highlights ambiguities or uncertainties in underlying scheme terms and conditions that should be addressed at an early stage. The process might, for example, identify the need for authorities to collect certain information or keep records in such a way that would not otherwise have been obvious, but which in practice are key to demonstrating the appropriate use of funds or that the policy objective is achieved.

The seven key areas that grant-paying bodies need to take into account in framing their arrangements, and which are described in this briefing, are:

- basic terms and conditions;
- administrative arrangements;
- claim forms or returns;
- support and assistance;
- certification arrangements;
- liaison with the Audit Commission; and
- post-certification follow up.

Basic terms and conditions

While grant schemes normally have a basis in primary legislation, the specific terms and conditions are often left to the discretion of the grant-paying body. Grant-paying bodies need to be as clear as possible about the terms and conditions under which grants will be paid. This is so that all authorities can prepare their claims and returns on a fair and consistent basis.

Grant-paying bodies are responsible for deciding:

- which authorities are eligible for grant;
- what terms and conditions are necessary to ensure that grant is paid in accordance with statutory provisions;
- what expenditure is eligible for grant;
- the period during which eligible expenditure will be supported (with specific start and finish dates); and
- the level of assurance required from authority and auditor certification of claims and returns (see the section on certification arrangements below).
Any one of the steps above may be more or less complicated in the case of a particular scheme. For example, identifying the authorities eligible for grant is straightforward where all authorities of a particular type receive funding, but it can be more difficult where competitive bids or bids on behalf of partnerships are required. Specifying the period for which a scheme operates is also relatively straightforward, particularly where it can be linked to an authority’s financial year or to completion of a project. Provided the guidance is clear that the grant cannot be claimed after a specified date or that specific carry forward arrangements apply, there should be little difficulty. However, setting clear criteria to ensure that the grant is only paid in accordance with statutory provisions and defining eligible expenditure can be more difficult.

The grant terms and conditions should, as a minimum:

- state whether claims or returns are to be on a receipts and payments (cash) or income and expenditure (accruals) basis. Other than in exceptional circumstances, income and expenditure should be used because accounts are prepared on this basis;
- state any particular accounting treatment required (for the treatment of overheads, pension costs, fixed assets and provisions) which should accord with proper accounting practice;
- provide clear definitions of eligible expenditure, supplemented as necessary by further guidance explaining the policy objective (for example, a circular) so that authorities are given a clear steer as to how grant monies are to be used;
- explain what an authority needs to do to demonstrate it has complied with particular terms. For example, if the grant is to fund ‘additional’ expenditure, the conditions need to set out the baseline from which this ‘additional’ expenditure is measured; and
- where the grant is to be paid on the basis of events or performance (for example, number of applicants processed), specify the conditions that need to be satisfied before an event will be assessed as having taken place or a task adequately performed.

The grant terms and conditions also need to:

- state the basis on which grant is payable, for example how a percentage grant rate is to be applied to eligible expenditure;
- state the amount of grant available or the basis on which it is calculated, including approval and virement arrangements;
- set out who is to be held accountable for public funds in partnership arrangements (for example, for repayment in the event of default), in particular the responsibilities of the lead partner and other partners;
- specify minimum standards for documentation; and
- cover the arrangements for dealing with overpayments and errors, and other circumstances where performance might be rewarded or penalised.
Administrative arrangements

13 Sound administrative arrangements are required that encourage eligible authorities to take up their entitlement to a grant and submit claims and returns promptly and accurately to minimise the work required for effective certification. The administrative arrangements should build on the terms and conditions derived from the policy objective, to provide an efficient and effective mechanism for demonstrating that the policy objectives have been met. The administrative arrangements include the claim form or return and certification arrangements which are dealt with in later sections.

14 Grant-paying bodies should ensure that:

- scheme terms and conditions and forms are available in sufficient time to enable authorities to make arrangements to collect information and to complete their claims and returns by the prescribed deadline. Comprehensive scheme terms and conditions should be available before the scheme starts so that authorities can plan their activities and use grant monies to maximum effect. Claim forms or returns should be available at the start of the scheme so that authorities can arrange from the outset to collect the data required;

- adequate notice is given before changes to rules and amendments to schemes are introduced. This will allow authorities to plan their expenditure and make appropriate arrangements for recording and controlling transactions; and

- payment profiles for advances of grant and the arrangements for final instalments after certification are established at the outset, including the treatment of under and overspends, virement of approvals and carry forward arrangements.

15 The administration of grant schemes by authorities is facilitated where claims and returns:

- are based on an authority’s accounting year to 31 March (to avoid records having to be kept on another basis);

- are based on income and expenditure (the basis on which the authority’s accounts are prepared);

- have completion deadlines which fit with the authority’s preparation of its accounts; and

- have auditor certification deadlines which enable the auditor to co-ordinate certification of claims or returns with the audit of the authority’s accounts.

Claim forms or returns

16 The claim form or return is the grant-paying body’s way of collecting the information it requires to demonstrate the appropriate use of grant monies. It will include the authority’s certificate and, where appropriate, the auditor’s certificate, with a view to providing assurance that those funds have been used for the intended purpose and in accordance with the relevant terms and conditions. This stage is a key part of the
process and should be considered fully, and the claim form or return drafted, at the same time the terms and conditions are being developed. Early preparation of the claim form or return will help to identify areas in the grant terms and conditions that require clarification. Early publication of the form means that authorities get advance warning of the information that they will need to collect to be able to complete their claim or return at the end of the reporting period.

17 Claim forms and returns should be properly designed so as to collect the information necessary for the calculation of grant entitlement. A claim form or return should:

- have a number identifying it as the appropriate interim or final claim form or return;
- have a logical structure that is user friendly, collecting related data into identifiable sections and providing cells with precise descriptions and space to make clear entries;
- require only necessary information and exclude information unrelated to the calculation of grant entitlement;
- calculate grant entitlement;
- require minimal non-financial and estimated data;
- be clear about the basis of individual entries such as income and expenditure, approved amounts or actual expenditure, total expenditure or qualifying expenditure;
- be supported by guidance notes for compilation that are timely, helpful, clearly cross-referenced to form contents and other scheme documentation and balanced in their expectations of the efforts that authorities need to make to ensure the accuracy of figures;
- include appropriate chief finance officer and auditor certificates (see the section on certification arrangements below);
- follow appropriate routeing arrangements to ensure undue delays are avoided. Claims and returns are usually completed in duplicate with the original sent to the auditor at the same time a copy is sent to the grant-paying body. The auditor subsequently sends the certified claim or return direct to the grant-paying body; and
- be required to be completed and certified to a prescribed timetable, with appropriate retentions to encourage prompt submission and compliance.

Support and assistance

18 With the package of scheme term and conditions and the claim form or return in place, grant-paying bodies also need to be able to provide support and advice to authorities implementing schemes. This support and advice may be in the form of comprehensive guidance notes or manuals, contact points, query resolution and training.
Grant-paying bodies should provide authorities with:
- a list of all documentation that is relevant to the scheme;
- details of the standards of documentation and evidence that authorities are expected to maintain;
- a named contact point for queries;
- arrangements for responding to authority enquiries about eligibility, entitlement and payments. In particular, the grant-paying body as paymaster should be able to provide clear opinions in response to valid queries;
- written responses to queries, not solely oral advice. In particular, where grant-paying bodies agree that an authority may take a course of action that is not, on the face of it, within the rules, the grant-paying body should confirm its advice to the authority in writing. Where approvals are revised, these should also be confirmed in writing. Written, rather than oral guidance is required and retained by authorities as evidence to support the action taken; and
- appropriate training and support including, where appropriate, training events for scheme administrators and finance staff.

Claim forms and returns should be supported by guidance notes for compilation that are timely, helpful, clearly cross-referenced to form contents and other scheme documentation and balanced in their expectations of the efforts that authorities will make to ensure the accuracy of figures. Grant-paying body guidance notes may also usefully provide:
- details of changes in scheme rules from the preceding year;
- assessments of where the main risk of errors and omissions in form compilation might lie (deliberate or accidental); and
- summaries of changes in scheme parameters (for example, grant-aid percentages) to assist comparison of year-on-year figures.

Schemes should be flexible enough to allow periodic review from year to year to ensure that provisions continue to be practicable, understandable and equitable. Where substantial flaws or opportunities for significant improvement are identified, these should be corrected or implemented promptly. However, annual amendments should normally be kept to a minimum, especially where they would not have a material effect on the way authorities operate a scheme or on their entitlement.

Certification arrangements

Arrangements for certification by authorities and auditors are needed to provide the grant-paying body with assurance as to the use of grant monies. However, the level of assurance sought by grant-paying bodies needs to be appropriate and should be determined following a thorough assessment of the assurance required in relation to a particular scheme. Often auditor certification is required simply because the
grant-paying body has used a standard set of terms and conditions that says claims have to be certified by an auditor. However, closer examination often reveals that the grant-paying body’s own monitoring arrangements and other reporting requirements adequately evidence the use of grant monies without the need for auditor certification.

23 Grant-paying bodies should consider carefully the level of certification their scheme justifies. Self-certification by the authority should always be required, but care should be taken to assess whether the additional assurance provided by an auditors’ certificate is worth the costs that will be incurred by all parties in the production and processing of the certificate. The auditor charges the authority a fee for the work necessary to enable the auditor to certify a claim or return.

24 Auditor certification will not be appropriate where claims or returns:
   - are for small amounts;
   - relate to expenditure that is regular or predictable over time;
   - have few conditional provisions and no complex terms;
   - provide few opportunities for claimant fraud; and
   - are subject to other monitoring or reporting arrangements that provide assurance to the grant-paying body.

25 Where it is decided that certification is required, grant-paying bodies need to:
   - incorporate appropriate certificates from the authority and, where required, the auditor. The authority’s certificate, which must be required to be given before the claim or return is passed to the auditor, must provide at least as much assurance as that required of the appointed auditor. It may also provide assurance on areas not appropriate to be included in the appointed auditors’ certificate. The certificate required of an Audit Commission appointed auditor must be in the standard form determined by the Commission. The form of certificates should be agreed in advance of preparation of the claim or return, so that they can be incorporated fully into the form design;
   - specify who may give the authority’s certificate. Normally, in local government, this will be the chief finance officer responsible for the authority’s financial administration under section 151 of the Local Government Act 1972, but it can be another officer if the grant-paying body decides that that person is better placed to provide the assurance required;
   - specify which auditors may certify the form. This will usually be any appropriately qualified independent accountant or the Commission’s appointed auditor, but internal auditor certification may be acceptable. Some precision is required in specifying which auditors may certify, for example, ‘your auditor’ invariably gives rise to the question whether this is the external or internal auditor. Grant-paying bodies should also note that where they wish to allow an authority to use any appropriately qualified accountant, they must be prepared to provide their own advice to the auditor and cannot rely on the guidance given by the Commission to
its appointed auditors. Where the Audit Commission appointed auditor is to be used, the grant-paying body should contact the Commission at an early stage when the certification requirement is being considered (see the section on liaison with the Audit Commission below); and

- be clear as to the respective roles and responsibilities of the grant-paying body, authority, Audit Commission and appointed auditor. Grant-paying bodies are referred to the Commission’s Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns (Audit Commission – available from www.audit-commission.gov.uk).

Liaison with the Audit Commission

26 Where grant-paying bodies specify arrangements that require, or might require, certification of claims or returns by Audit Commission appointed auditors, the grant-paying body is responsible for liaising with the Commission. Grant-paying bodies need to familiarise themselves with existing protocols for certification and be in a position to comment on, and agree, the certification arrangements for their particular scheme.

27 The arrangements with which grant-paying bodies need to be familiar are set out in:

- the Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns (Audit Commission – available from www.audit-commission.gov.uk). Grant-paying bodies should note, in particular, that the Commission will not make arrangements to certify claims and returns for amounts below a de minimis amount set by the Commission and will not make certification arrangements unless its formal agreement to do so has been secured before certification by its appointed auditor is made a condition of grant; and

- Certification Instruction CI A01 General Certification Instructions which summarises the general approach that the Commission takes when asked to make certification arrangements. It sets out:
  - administrative processes for appointed auditors;
  - matters that appointed auditors should consider when planning certification work;
  - tests applicable to schemes (relating to such things as the basis of compilation of the claim or return); and
  - guidance on certification and qualification letters.

28 Grant-paying bodies should consult the Commission on a timely basis, to enable the Commission to put the necessary arrangements in place and to draft instructions to its appointed auditors on the basis of the terms and conditions specified by the grant-paying body. The Commission’s draft of the certification instruction for a scheme requires the written agreement of the grant-paying body before publication.
29 The Commission will provide reasonable assistance to a body devising a new grant scheme to facilitate the making of arrangements for certification where that is necessary. Matters of particular interest will be:

- discussing whether the scheme meets the Commission’s criteria for making certification arrangements;
- providing contacts in other grant-paying bodies that have established effective certification arrangements for schemes, comparable to that under development or revision;
- determining whether the level of assurance required by the grant-paying body can reasonably be expected from auditors;
- providing a timely assessment of whether the provisions of a new or revised scheme are capable of being certified without incurring excessive cost;
- discussing whether certification timetables will be achievable; and
- advising on draft forms and guidance.

Post-certification follow up

30 Grant-paying bodies should deal promptly with certified claims and returns, in particular with qualified certificates on claims or returns. Failure to do so undermines the whole process and throws into question the purpose of seeking assurance in the first place.

31 There should be formal targets for dealing with all claims and returns certified by auditors covering the following tasks:

- checking the validity of claims and returns to ensure that they are acceptable to the grant-paying body and contain the necessary certifications;
- resolving any uncertainties that the grant-paying body may have about the contents of certified claims and returns;
- processing amendments and providing prompt notification to authorities if amendments require further investigation before being accepted;
- dealing promptly and effectively with matters arising in auditors’ qualification letters;
- making final payments; and
- planning revisions to the terms and conditions of continuing schemes and related guidance, where issues arising from certified claims and returns suggest that updating or other amendments are required.

32 There should be clear arrangements for dealing with ‘stragglers’ where deadlines are missed. Grant-paying bodies should have a register of authorities expected to submit a claim or return and:

- monitor the receipt of pre-auditor certified (authority certified) claims or returns;
What grant-paying bodies can expect from authorities

33 In local government, an authority’s chief finance officer has a statutory responsibility for ensuring that accounting records are sufficient to show that the authority’s transactions are maintained in accordance with proper practices and are kept up to date. Accounting records must include a record of income and expenditure in relation to claims for grants or subsidy.

34 Grant-paying bodies can expect authorities to:

- implement systems of internal control (including accounting arrangements and internal audit) for the scheme that are both adequate and effective in providing assurance that entries on claims and returns are fairly stated;
- complete claims or returns accurately and in accordance with their understanding of the scheme terms and conditions;
- take all reasonable steps to ensure deadlines are met;
- carry out adequate supervision and review to ensure that the certifying officer has ‘ownership’ of the assertions made in the authority’s certificate; and
- appoint an auditor acceptable to the grant-paying body and facilitate their work.

What grant-paying bodies can expect from the Audit Commission

35 The Commission is responsible for making arrangements for the certification of claims and returns where it has been requested to do so by authorities to which it appoints auditors. Grant-paying bodies can require authorities to use the Commission’s appointed auditor as a condition of grant. The Commission can act only on the request of authorities.

36 The Commission will make certification arrangements in accordance with procedures set out in:

- the Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns (Audit Commission – available from www.audit-commission.gov.uk); and
- Certification Instruction CI A01 General Certification Instructions.
If the Commission agrees to make certification arrangements, it will prepare a certification instruction (CI) specifically for the scheme. The CI is agreed in consultation with the grant-paying body and contains background information on the scheme and the procedures that need to be carried out before a certificate can be given. The Commission responds to queries from auditors using CIs and deals with queries from grant-paying bodies that arise after auditor certification where further reference to the appointed auditor may be called for.

The Commission has a standard form of appointed auditor's certificate that has been widely adopted by grant-paying bodies and is included in the Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns (Audit Commission – available from www.audit-commission.gov.uk). Appointed auditors will give a certificate in this form where it is built into a claim or return, or where no form of certificate is prescribed, and will only depart from it in exceptional circumstances and where the relevant CI requires it.

In arranging auditor certification, the Commission is not subject to direction by a grant-paying body. It must also charge authorities a fee that covers the full cost of certification.

What grant-paying bodies can expect from appointed auditors

In order to avoid unreasonable cost, certification work cannot be detailed enough to guarantee that all errors in a claim or return (accidental or fraudulent) will be identified or that an authority’s entitlement has maximised. Instead, auditors review the information contained within the claim or return, reach a conclusion and complete the auditor’s certificate in accordance with instructions issued by the Commission.

In arriving at a conclusion, the appointed auditor acts as a professional accountant and not a legal expert – where differences of opinion arise as to the interpretation of any of the scheme’s provisions, the auditor will set out those differences in a qualification letter to the grant-paying body, but will not adjudicate over them.

In following the CI approach, appointed auditors will obtain such evidence and explanations from the authority as they consider necessary to form their conclusions. Where testing is required, the level of testing is a matter of professional judgement according to the particular circumstances of the authority and the claim or return and to the auditor’s assessment of where the risk of errors or omissions is greatest.

Auditors will plan to complete their work so that deadlines are met. This will include the timely provision to the grant-paying body of a certificate and, where necessary, a qualification letter. Appointed auditors will not disclose certificates and qualification letters to third parties other than those with statutory rights of access to them. The National Audit Office, or other auditor of a grant-paying body, may use the appointed auditor’s certificate and qualification letter in connection with the audit of the grant-paying body.
Grant claims and returns: good practice checklist

The following checklist is designed to assist grant paying bodies to review the arrangements for individual claims and returns and to assess their adequacy by reference to the elements of good practice detailed in this briefing. Action is required where assessment does not produce the answer ‘Yes’ or ‘Not applicable’ (N/A).

<table>
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<tr>
<th>Yes or N/A</th>
<th>Action required</th>
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<tbody>
<tr>
<td>1</td>
<td>Do terms and conditions clearly specify</td>
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<tr>
<td>a</td>
<td>grant period, eligible authorities and eligible (and ineligible) activities/costs;</td>
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<td>b</td>
<td>certification arrangements;</td>
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<td>c</td>
<td>accounting basis for claims/returns and any special treatments for particular items;</td>
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<td>d</td>
<td>how authorities demonstrate compliance with terms and/or performance measures;</td>
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<td>basis on which grant is payable, including approval and virement arrangements;</td>
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<td>accountability in partnership arrangements;</td>
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<td>g</td>
<td>minimum standards for documentation; and</td>
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<td>h</td>
<td>arrangements for dealing with overpayments and errors, rewards and penalties?(paras 8-12)</td>
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<td>2</td>
<td>Are terms and conditions and forms available in good time, with claims/returns based on a normal accounting year and timetable? (paras 13-15)</td>
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<td>3</td>
<td>Are claim forms and returns properly designed and supported by completion notes where necessary? (paras 16-17)</td>
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<td>4</td>
<td>Are arrangements in place to provide support and assistance to authorities and to allow for periodic review of scheme provisions? (paras 18-21)</td>
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<td>5</td>
<td>Have certification arrangements been determined following assessment of the assurance required and the level of certification this justifies? (paras 22-25)</td>
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<td>6</td>
<td>Where certification by an Audit Commission appointed auditor is required, have the necessary arrangements been made with the Audit Commission? (paras 26-29)</td>
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<td>7</td>
<td>Are arrangements in place to deal promptly with certified claims/returns including dealing with auditor qualifications, making final payments and pursuing overdue returns? (paras 30-32)</td>
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