Good practice in grant schemes

Authorities
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. Authorities are responsible for the proper and accurate preparation of claims and returns and for the establishment of effective administrative and financial systems, including proper arrangements to prevent and detect fraud. If these arrangements do not operate effectively, the time, and therefore cost, to the authority of auditor certification is likely to increase along with the burden of regulation.

5. All parties to a scheme will benefit where authorities take care to ensure that their claims and returns are completed accurately, submitted promptly and are supported by comprehensive documentation. The Commission has prepared this briefing setting out what it considers to be good practice for authorities in administering grant schemes.

Key elements of good practice for authorities

6. Authorities are responsible for the proper and accurate preparation of claims and returns and for the establishment of effective administrative and financial systems, including proper arrangements to prevent and detect fraud.

7. Authorities need to be satisfied that they are able to comply with the terms and conditions of a grant scheme, including auditor certification requirements, before accepting it.
Authorities are also responsible for supervising and reviewing completed claims or returns before completing the authority’s certificates.

The key areas that authorities need to take into account in administering grant schemes, and which are described in this briefing, are:

- identifying grant schemes;
- arrangements for managing and administering grant schemes; and
- liaison with the Audit Commission’s appointed auditor.

Identifying grant schemes

It is important that an authority identifies all of the schemes for which it may be eligible. Clearly not all schemes apply to all authorities and it is a challenge, particularly in the case of new funding sources, to identify those to which a particular authority may be entitled.

There are various sources of information about grants, including commercial and web-based grant finder services. It is recommended that authorities nominate a grants co-ordinator to be responsible for collecting information about all grant schemes relevant to the authority. The grants co-ordinator should:

- use internal and external information sources, including regularly reviewing publications and the websites of government departments, other grant-paying bodies and authority associations for news of developments, to maintain a comprehensive register of grant schemes;
- make the position and responsibilities of the grants co-ordinator known across the authority;
- be promptly copied in on all correspondence about new, revised and continuing grant schemes received by other officers; and
- develop contacts with grants co-ordinators in other similar authorities.

The Audit Commission produces an index of certification instructions identifying grant schemes that require appointed auditor certification. Co-ordinators are encouraged to periodically secure a copy of the index from their authority’s appointed auditor and review it to confirm that the authority has identified all relevant schemes. However, the Commission’s index of certification instructions is not a substitute for action by an authority or grants co-ordinator during the course of a year because:

- it is not prepared until the end of the financial year; and
- it contains only grant schemes that require auditor certification, so it is not an exhaustive list of grant funding that may be available.
Arrangements for managing and administering grant schemes

13 The chief finance officer is responsible for ensuring that supporting accounting records are sufficient to show the authority's transactions. They should be maintained in accordance with proper practices and kept up to date, including a record of income and expenditure in relation to claims and returns.

14 Authorities are responsible for ensuring that their claims and returns:
   - are completed accurately and in accordance with the scheme terms and conditions;
   - are supported by systems of internal control, including systems of internal financial control and internal audit, which are both adequate and effective in practice;
   - are completed in a timely fashion so that deadlines are met;
   - are supported by adequate working papers; and
   - are subject to proper supervision and review prior to completion of the authority's certificate.

Completed accurately and in accordance with the scheme terms and conditions

15 Authorities need to ascertain the requirements of grant schemes at an early stage. This allows those responsible for incurring eligible expenditure to ensure that it falls within the scheme rules and those responsible for compiling claims and returns to subsequently confirm grant entitlement.

16 Measures to be taken include:
   - identifying the key terms and conditions of the scheme at an early stage, particularly where scheme rules are complex; and
   - ensuring that information about the scheme is kept up to date and revised promptly for changes to the scheme rules.

17 The key terms and conditions to be noted include:
   - the definition of qualifying expenditure;
   - the rates at which different types of expenditure attract grant;
   - whether the grant-paying body must approve the authority’s spending plans in advance;
   - any limits or caps on entitlement;
   - the financial and non-financial information to be collected to evidence entitlement; and
   - the possibility that errors/omissions and late submissions might result in loss of entitlement.
Authorities are encouraged to take the opportunity to respond at the consultation stage on proposals for new grant schemes. In particular, authorities are encouraged to seek early clarification from grant-paying bodies of policy statements, scheme conditions and definitions of eligible expenditure. This reduces the possibility of incurring ineligible expenditure. Where there is any uncertainty as to how to interpret scheme terms and conditions for schemes already in operation, written clarification from the grant-paying body should be sought. Where the matter is likely to affect other authorities, clarification could be sought via the relevant authority association. Written, rather than oral, clarification should be secured and retained as evidence to support the action taken by the authority.

Good practice measures include:

- ensuring that the authority’s nominated contact for communications from the grant-paying body (possibly the grants co-ordinator) distributes documents quickly and efficiently to all officers who need to be aware of their content. Where grant-paying bodies address communications to, for example, the chief executive or chief finance officer, the authority should have arrangements that ensure that the documentation is referred promptly to the appropriate person within the authority;
- ensuring that each scheme has a nominated ‘champion’ who is the authority’s expert on a scheme and is responsible for:
  - maintaining a comprehensive collection of relevant documents;
  - preparing bulletins and briefing notes on scheme developments for other officers;
  - securing written advice from the grant-paying body where there is any uncertainty as to what is required by the scheme terms and conditions; and
  - commissioning any training that might be required to operate the scheme effectively;
- agreeing consistent and equitable policies for the treatment of, for example, overheads, support services, pension costs and capital charges across all claims and returns that do not include specific instructions for special treatment; and
- ascertaining deadlines for submission of claims and returns, setting up a claims and returns register and ensuring that all staff involved in their compilation are aware of their responsibilities, including deadlines and the consequences of not meeting them.

Authorities will wish to secure their maximum entitlement within the rules of a particular grant scheme, but at the same time avoid the possibility of over claiming. Where the grant is paid by instalments based on authorities’ estimates of entitlement, authorities need to make reasonable forecasts to avoid cash flow difficulties arising from under-estimation.
Supported by systems of internal control, including systems of internal financial control and internal audit, which are both adequate and effective

21 The particular controls required will vary from scheme to scheme. In many cases the usual controls within payroll, creditors and accounting systems will be sufficient for the purposes of compiling a claim or return. In other cases, the controls required will be specific to a particular system that supports the scheme in question, for example, the controls within systems for housing benefit, non-domestic rating or student awards.

22 The arrangements in each case should include:

- **separate cost codes for each grant claim or return.** Each cost centre should have appropriate controls over posting of data from other financial systems and journals, a coding structure adapted to produce the form entries and a clear audit trail that goes from the figures in the accounts back to supporting documentation and then forward to the claim or return. Cost centres should be subject to the usual range of internal controls over transactions to ensure, for example, that transactions are properly authorised, coded and the totals for each code are properly accumulated;

- **procedures to demonstrate that funding passed to third parties has been used for the intended purpose.** The authority needs to be able to satisfy itself, and subsequently its auditors and the grant-paying body, that only eligible expenditure is claimed. Arrangements may include obtaining independently audited statements from partners certifying the eligibility of expenditure, a payments monitoring system during the year (supported by appropriate prime records) and/or a system of spot checks on third party records. It can also be useful to have a standard agreement that gives access to the financial records of the other body and allows for scrutiny of its stewardship arrangements (perhaps to be exercised by internal audit);

- **budgetary control and cash flow monitoring to identify instances where the authority might not have secured its full grant entitlement.** Estimates of grant income should be based on forecasts of activity and entitlement for the forthcoming year, rather than prior year figures adjusted for inflation. Estimates should be adjusted when changes in the scheme conditions significantly affect the grant an authority can expect to receive. The receipt of grant income against forecasts should be monitored and any shortfalls identified, investigated and the appropriate action taken. Regular reports by the grants co-ordinator to the chief finance officer should be considered; and

- **internal audit resources.** Where claims or returns are based on complex financial systems, internal audit resources can be used to provide assurance that systems have operated satisfactorily over the period covered by the claim or return. Liaison between the internal and appointed auditors, particularly as regards the requirements of certification instructions, should help internal audit provide assurance to both the certifying officer prior to completion of the authority certificate and to the appointed auditor.
Completed in a timely fashion so that deadlines are met

23 To comply with the terms and conditions and to avoid sanctions and penalties, it is important to meet the deadlines for interim and final claim or return stages.

24 Despite the fact that most good practice points on completing claims and returns in a timely fashion are obvious, deadlines are missed. Good practice includes:

- ascertaining at the outset the deadlines for submission of claims and returns;
- setting up a claims and returns register and reviewing this regularly to ensure it is up to date. The register should be used to monitor progress against timetable, to follow up missed deadlines or other problems and to ensure that the grant-paying body and auditor are informed promptly of delays;
- ensuring that all staff involved in the compilation of claims and returns are aware of their responsibilities for meeting deadlines and the consequences of not doing so; and
- setting targets for completion of stages in claim and return compilation, rather than working unsystematically towards the deadline for submission of claims and returns set by the grant-paying body.

25 Plans to meet deadlines should be properly resourced to ensure that they are achieved. When setting targets for the completion of claims or returns, authorities should take into account:

- whether officers with appropriate experience will be available to complete the claims and returns by the target dates;
- whether those officers have the necessary administrative support;
- where compilation requires the preparation of special reports from financial systems or the collection of information not already held, whether this information will be available when required;
- where the certifying officer requires assurance from internal audit or from the external auditor of partners before signing the certificate, whether the necessary work will be completed in good time; and
- whether the closure of accounts programme takes account of claim and return deadlines.

Supported by adequate working papers

26 Claims and returns should be supported by adequate working papers, including, where applicable, non-financial records that:

- satisfy the statutory requirement on the chief finance officer of a local authority to maintain adequate records in relation to claims;
- document the basis of the claim or return and the derivation of the information it contains; and
- are kept in a form which will help the appointed auditor and reduce certification time and, therefore, the cost to the authority.
27 Working papers need to be referred to by both the responsible officer and the auditor in preparing to sign their certificates. The basic requirement of good supporting documentation is that it should allow reviewers to readily trace any entry on the claim or return to the underlying evidence that supports it.

28 Authorities should set standards for documentation and working papers and take steps to ensure that the standards are met by all those responsible for assisting with the compilation of a claim or return. Working papers should include:

- the date of preparation and the name of the officer preparing the working papers;
- the appropriate cells on the claim or return to which the paper relates;
- cross references to the system or copies of system 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-references 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; and
- evidence of independent review of expenditure, which is included in the claim or return, but incurred by another body.

29 Steps that can be taken to raise standards of documentation include:

- providing training for officers on the compilation of good working papers, perhaps making use of the experience of appointed auditors; and
- developing standard stationery for claim and return documentation, including the preparation of computerised working papers and spreadsheets.

30 Where the compilation of claims or returns is contracted out, with some or all of the finance function, authorities should take care that the contract specification sets out the minimum documentation standards to be met by the contractor.
Subject to proper supervision and review

31 Irrespective of who may complete claims and returns for the authority, grant-paying bodies usually require the authority’s certificate to be given by an appropriate senior officer. This is typically the chief finance officer or an officer authorised by written delegated powers.

32 The authority’s certificate should only be given when the certifying officer is satisfied with the entries made and that the assurance given by the authority’s certificate is well founded. Certification does not require the certifying officer to carry out an audit of the claim or return, but there must be a system of adequate supervision and review to ensure that the certifying officer has ‘ownership’ of the declarations made in the authority’s certificate. Arrangements that help to provide the necessary assurance include ensuring that:

- claims and returns are compiled by officers with the appropriate expertise and knowledge of the scheme;
- working papers supporting claims and returns are prepared in accordance with the guidance in paragraphs 26 to 30 above;
- before certification, claims and returns are checked for arithmetical or clerical errors, reviewed for completeness and reasonableness, test checked back to supporting documentation and compared to the claim or return for the prior period. This should be done by an officer not directly involved in their compilation; and
- the review process is properly evidenced, especially as regards the resolution of matters arising from the review.

33 The grants co-ordinator may have a range of responsibilities connected with the supervision, review and certification stages for claims and returns. These may include:

- ensuring that officers responsible for completing claims and returns are given the necessary training, particularly those officers without relevant accounting experience;
- ensuring that action is taken to address points arising from previous auditor certifications before the current claim or return is submitted;
- providing management information from the accounts and the grants register in terms of:
  - claims or returns made and interim amounts claimed and received;
  - cost and time spent by the authority on each claim or return;
  - cost and time spent by the appointed auditor on each claim or return;
  - performance in meeting deadlines;
  - values, amounts and reasons for adjustments made as a result of auditor certification; and
  - reasons for and subsequent action taken with regard to matters leading auditors to qualify their certificates.
Liaison with the Audit Commission’s appointed auditor

34 Grant-paying bodies may restrict certification to the Commission’s appointed auditor or to any accountant who is both independent and appropriately qualified. Where an authority makes arrangements for claims or returns to be certified other than through the Audit Commission, it needs to be able to demonstrate to the grant-paying body, if required, that the accountant is independent and holds any qualifications specified by the grant-paying body.

35 The Audit Commission, rather than its appointed auditor, is responsible for making certification arrangements. However, authorities should not assume that the Commission is advised by grant-paying bodies of all schemes that require auditor certification or that the Commission will decide that it is appropriate to make certification arrangements in every case. Authorities are responsible for ensuring that scheme terms and conditions, as regards auditor certification, can be satisfied before accepting these terms. Authorities intending to ask their Audit Commission appointed auditor to certify claims and returns should check with the grant-paying body that it has consulted the Audit Commission and secured its formal agreement to make certification arrangements.

36 It is important that authorities and appointed auditors agree which claims and returns are expected, as well as a timetable for their preparation and certification so that both authority and auditor certification deadlines are met. In addition to the certification deadlines fixed by the grant-paying body, the timetable needs to take account of the availability of key information and staff, the dates of auditor visits and the need to integrate certification work with other work by the authority or appointed auditor. An allowance should also be made for any additional work to be undertaken by the authority or the auditor which may be necessary in the light of initial auditor findings.

37 It is helpful if the authority agrees a protocol with its appointed auditors, stating precisely what is expected of the authority, from whom and by when. For example, where internal audit is to be involved in work in relation to claims and returns, agreement should be reached between the internal and appointed auditors on the planning, approach and documentation of work, the availability of certification instructions and arrangements for the prompt identification and resolution of problems and recommendations arising from auditor’s work. The authority should monitor the total time being spent on certification work by internal and appointed auditors.

What authorities can expect from grant-paying bodies

38 Grant-paying bodies are responsible for the terms and conditions on which any grant is to be paid. Authorities should expect clear eligibility and entitlement criteria that allow amounts of grant due to be established with minimum deliberation and consistently across all authorities.
Grant-paying bodies should have sound administrative arrangements for schemes that encourage eligible authorities to take up their entitlement to grant and to minimise the work required for effective certification. Scheme terms and conditions and associated claims and returns should be made available to authorities in a timely manner so that authorities can plan to make the best use of the funding available and make arrangements to collect the information required to complete the claim or return. The arrangements should be supplemented as necessary with comprehensive guidance notes and contact points for further information, query resolution and training. Grant-paying bodies should expect that they will need to resolve questions about eligibility and entitlement arising during compilation and certification.

Grant-paying bodies determine whether auditor certification of a claim or return is required. Grant-paying bodies should:

- take steps to familiarise themselves with relevant audit arrangements, in particular the Audit Commission’s arrangements for certifying claims and returns, before including a certification requirement in their terms and conditions;
- liaise with the Commission to ensure auditor certification by one of its appointed auditors is possible;
- deal efficiently with certified claims and returns, settling unqualified claims and returns promptly and taking appropriate follow up action where auditor certificates are qualified.

What authorities can expect from the Audit Commission

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.

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
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 where 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 authorities 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 been 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 authorities 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>
<thead>
<tr>
<th></th>
<th>Yes or N/A</th>
<th>Action required</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Are the requirements of the scheme clear and arrangements in place to ensure that the claim or return is completed accurately and in accordance with all terms and conditions? (paras 15-20)</td>
<td></td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Are systems of internal control, including systems of internal financial control and internal audit, in relation to the claim or return adequate and effective? (paras 21-22)</td>
<td></td>
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<tr>
<td><strong>3</strong></td>
<td>Are arrangements in place to ensure that the claim or return is completed in a timely fashion? (paras 23-25)</td>
<td></td>
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<tr>
<td><strong>4</strong></td>
<td>Are arrangements in place to ensure that adequate working papers are maintained to support the claim or return? (paras 26-30)</td>
<td></td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Are arrangements in place to ensure that the claim or return is subject to proper supervision and review? (paras 31-33)</td>
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<tr>
<td><strong>6</strong></td>
<td>Where external auditor certification of the claim or return is required, have the necessary arrangements been made with the Audit Commission? (paras 34-37)</td>
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</tbody>
</table>
Grant claims and returns: review checklist for authorities

Authorities may find it useful to follow this checklist when reviewing the completed claim form or return prior to completing the authority’s certificate. Action must be taken where assessment does not produce the answer ‘Yes’ or ‘Not applicable’ (N/A).

<table>
<thead>
<tr>
<th>Yes or N/A</th>
<th>Action required</th>
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<tbody>
<tr>
<td>1</td>
<td>Has the claim/return been submitted using the correct form (or in the correct format as required by the grant-paying body)?</td>
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<tr>
<td>2</td>
<td>Have all relevant parts of the claim/return been properly completed and is all arithmetic correct?</td>
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<tr>
<td>3</td>
<td>Do entries on the claim/return and supporting working papers agree (accruals) or reconcile (payments) with the authority’s expenditure and income accounts or data for the claim/return period?</td>
</tr>
<tr>
<td>4</td>
<td>Does enquiry and, where appropriate, comparison with previous claims, provide assurance that the entries on the form are reasonable?</td>
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<tr>
<td>5</td>
<td>Are supporting records and working papers available to the reviewer and are they adequate to support the entries in the claim/return?</td>
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<tr>
<td>6</td>
<td>Are contracts reflected in the claim/return awarded in accordance with standing orders and with any specific procurement rules required by the scheme?</td>
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<tr>
<td>7</td>
<td>Are charges for goods or services provided in-house made on the same basis as those charged to non-grant-earning activities?</td>
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<tr>
<td>Yes or N/A</td>
<td>Action required</td>
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<tr>
<td>8</td>
<td>Has duplication with other claims/returns been avoided?</td>
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<tr>
<td>9</td>
<td>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?</td>
</tr>
<tr>
<td>10</td>
<td>Is the senior officer preparing to certify the claim/return authorised to do so under the terms of the scheme?</td>
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</table>