Claims and returns: Good practice for grant-paying bodies
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.
<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>About this guidance</td>
<td>2</td>
</tr>
<tr>
<td>Key areas for grant-paying bodies</td>
<td>2</td>
</tr>
<tr>
<td>Terms and conditions</td>
<td>3</td>
</tr>
<tr>
<td>Administrative arrangements</td>
<td>4</td>
</tr>
<tr>
<td>Claim forms or returns</td>
<td>5</td>
</tr>
<tr>
<td>Support and advice</td>
<td>5</td>
</tr>
<tr>
<td>Certification arrangements</td>
<td>6</td>
</tr>
<tr>
<td>Liaison with the Commission</td>
<td>8</td>
</tr>
<tr>
<td>Post-certification follow up</td>
<td>9</td>
</tr>
<tr>
<td>Claims and returns: good practice checklist</td>
<td>10</td>
</tr>
</tbody>
</table>
About this guidance

1 Government departments and agencies (grant-paying bodies) require claims for grants and subsidies and returns of financial information for a wide range of schemes. Claims and returns are a way of getting information about a scheme and showing that it is working as intended. Grant-paying bodies sometimes require an appropriately qualified and independent accountant’s report or auditor’s certificate on a claim or return to confirm, for example, it is fairly stated and in line with the scheme terms and conditions.

2 The Audit Commission (the Commission) makes certification arrangements when asked to do so by a body to which it appoints the auditor (authorities). Authorities request certification when a grant-paying body includes an auditor certification requirement in the terms and conditions for a scheme. Grant-paying bodies, authorities, the Commission and its appointed auditors all have an interest in ensuring that claim and return certification procedures work efficiently and effectively.

3 The Commission has prepared this guidance setting out what it considers to be good practice for grant-paying bodies managing schemes. It provides a framework against which the Commission will judge whether it is appropriate for the Commission to make certification arrangements for a scheme.

4 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), summarising the respective responsibilities of each of these parties.

Key areas for grant-paying bodies

5 Clear and practical terms and conditions, including reporting requirements, are an essential part of any scheme. Grant-paying bodies should consider the reporting stage and the detail of claims or returns and the assurance required at an early stage. Developing a claim form or return can highlight ambiguities or uncertainties in underlying terms and conditions that need to be addressed. It can, for example, identify the need for authorities to collect information or keep records in a particular way to show the proper use of funds or that a policy objective is met.

6 Assurance arrangements need to be proportionate to risk and appropriate to the scheme. Certification of a claim or return is one way of getting assurance about an authority’s entitlement to grant or subsidy or about the information provided in a return, but it is not the only way. A grant-paying body needs to consider all sources of assurance including the assurance provided by an authority’s certificate and by other monitoring and reporting arrangements. A decision to require auditor certification should follow a thorough assessment of the options. Grant-paying bodies need to be clear why the additional assurance of an auditor’s certificate is needed and worth the costs that will be incurred.
Auditor certification will not usually be necessary where claims or returns:

■ are for small amounts;
■ are for expenditure that is regular or predictable;
■ are simple, for schemes with few conditions and no complex terms;
■ provide few opportunities for fraud and error; or
■ are subject to other monitoring or reporting arrangements that provide information and assurance to the grant-paying body.

The main areas that grant-paying bodies need to consider are:

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

Terms and conditions

Grant-paying bodies need to set clear and practical terms and conditions for paying grant or subsidy, or for the information required in a return. Clear and practical terms and conditions allow authorities to prepare claims and returns on a sound, consistent basis.

Grant-paying bodies need to decide:

■ which authorities are eligible;
■ what terms and conditions are necessary to ensure that a scheme meets statutory requirements;
■ what expenditure is eligible for grant or subsidy or what information is required;
■ the time period for a scheme, for example, for eligible expenditure (with specific start and finish dates) and a reporting timetable; and
■ the assurance required.

The detail required will vary by scheme. For example, identifying the authorities eligible for grant or subsidy is easy where all authorities of a particular type receive funding, but can be more difficult where there are competitive bids or bids from partnerships. Specifying the time period for a scheme is also easy where it links to an authority’s financial year or to completion of a project. However, setting clear criteria to ensure that a scheme meets statutory requirements and defining eligible expenditure can be more difficult.

Scheme terms and conditions should, as a minimum:

■ state whether claims or returns are on a receipts and payments (cash) or income and expenditure (accruals) basis. Income and expenditure is preferred because accounts are prepared on this basis;
■ state any particular accounting treatment required (for example, for overheads, pension costs, fixed assets and provisions) where this varies from usual accounting practice;
provide clear definitions of eligible expenditure, supplemented as necessary by guidance explaining the policy objective so that authorities are clear about how funding is to be used or what information is required in a return;

explain what an authority needs to do to show it has complied with particular terms and conditions. For example, if a grant or subsidy is to fund ‘additional’ expenditure, the terms and conditions need to set out the baseline from which ‘additional’ expenditure is measured; and

specify any performance measures needed to show that grant or subsidy is due or a scheme is working as intended.

13 Scheme terms and conditions also need to:

state the basis of funding including, for example, any funding limits, the percentage rate of support available and how to calculate entitlement to grant or subsidy;

state approval and virement arrangements;

set out the responsibilities of the lead partner and other partners in partnership arrangements including who is accountable for funds and for reporting to the grant-paying body;

specify minimum standards for documentation; and

cover the arrangements for dealing with overpayments and errors, and other circumstances where performance might be penalised, such as missed deadlines.

**Administrative arrangements**

14 Sound administrative arrangements help ensure policy objectives are met. Administrative arrangements include the claim form or return and certification arrangements covered in later sections.

15 Grant-paying bodies should:

make scheme terms and conditions and forms available in plenty of time to allow authorities to plan and arrange to collect information and complete claims and returns on time;

give notice of any change to scheme terms and conditions in plenty of time to allow authorities to plan and arrange to collect and report information on time; and

make sure payment profiles for advances of grant or subsidy or for payments to the grant-paying body are clear from the start. The arrangements should cover approvals and virement, under and overspends, final instalments after certification and any carry forward arrangements.

16 Schemes are simpler for authorities to manage where claims and returns:

use the authority’s normal accounting year to 31 March;

use the authority’s normal accounting basis, income and expenditure;

have completion deadlines that fit with the authority’s preparation of its accounts; and
have auditor certification deadlines that enable the auditor to coordinate certification of claims or returns with the audit of the authority’s accounts.

**Claim forms or returns**

17 The claim form or return should collect the information the grant-paying body needs. It will include the authority’s certificate and, where appropriate, the auditor’s certificate. The grant-paying body should draft the claim form or return at the same time it drafts the terms and conditions. Early preparation of the claim form or return will help to identify areas in the terms and conditions that require clarification. Early publication of the form means that authorities know what information they need to collect to be able to complete their claim or return at the end of the reporting period.

18 A claim form or return should:
- have a reference number identifying it as an interim or final claim form or return;
- have a logical, user-friendly layout and include clear and precise descriptions of the entries required and space to make the entries;
- require only necessary information and exclude information unrelated to the grant or subsidy calculation or to the amount payable in a return;
- calculate entitlement to grant or subsidy or the amount payable in a return;
- avoid asking for unnecessary non-financial and estimated data;
- be clear about the basis of entries and use correct and consistent terminology, for example, by not confusing payments and expenditure;
- have guidance notes 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 authority and, where necessary, auditor certificates (see the section on certification arrangements below);
- require completion and certification by prescribed deadlines, with suitable retentions to encourage compliance; and
- have suitable routing arrangements. Authorities usually send claims and returns requiring auditor certification directly to the auditor and send a copy to the grant-paying body. The auditor sends the certified original to the grant-paying body.

**Support and advice**

19 With the scheme terms 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. 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 relevant to the scheme;
- details of the standards of documentation and evidence that authorities need to keep;
- a named contact point for queries;
- arrangements for responding to authority enquiries about eligibility, entitlement and payments;
- written responses to queries. A written response is important where a grant-paying body agrees that an authority may take a course of action that is not obvious from the terms and conditions or a revised approval agreed. Authorities need written responses as evidence to support the action taken; and
- training for scheme administrators and finance staff where necessary.

Grant-paying bodies should support claim forms and returns with guidance notes for compilation. Guidance notes need to be 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. Guidance notes may also usefully provide:

- details of changes in scheme rules from the preceding year;
- an assessment of the main risk areas for errors and omissions in form compilation; and
- a summary of scheme changes, for example, the rate of support or type or number of cases supported, to help authorities compare figures and explain year-on-year differences.

Grant-paying bodies should review schemes periodically to ensure that terms and conditions remain clear, practical and fair. Where a review identifies opportunities for significant improvement, changes should be made promptly. However, grant-paying bodies should avoid amendments that do not have a material impact on a scheme.

Certification arrangements

Assurance arrangements need to be proportionate to risk and appropriate to the scheme. Certification of a claim or return is one way of getting assurance about an authority’s entitlement to grant or subsidy or about the information provided in a return, but it is not the only way. A grant-paying body needs to consider all sources of assurance including the assurance provided by an authority’s certificate and by other monitoring and reporting arrangements. A decision to require auditor certification should follow a thorough assessment of the options. Grant-paying bodies need to be clear why the additional assurance of an auditor’s certificate is needed and worth the costs that will be incurred.
Every claim or return should be certified by the responsible financial officer of the body completing it, confirming that it is correct and follows the scheme terms and conditions. This self-certification alone may provide sufficient assurance, especially where a scheme is low risk or where other monitoring provides assurance.

Self-certification may provide sufficient assurance where claims and returns:
- are for small amounts;
- cover expenditure that is regular or predictable;
- are simple, for schemes with few conditions and no complex terms; or
- provide few opportunities for fraud or error.

Self-certification may also provide sufficient assurance where other monitoring arrangements provide information about a scheme. Such arrangements may include having effective controls over payments of grant or subsidy or amounts reported, for example:
- regular reports showing progress against scheme objectives;
- evidence of measurable achievements;
- grant-paying body representation on the body managing or overseeing a scheme;
- grant-paying body spot checks or visits to check that a scheme is working; or
- other independent evidence, for example, a surveyor’s report on a construction project.

Grant-paying bodies need to:
- assess the sources of assurance already available for a scheme and decide if auditor certification is necessary;
- incorporate certificates from the authority and, where required, the auditor. The authority’s certificate must provide at least as much assurance as the auditor’s certificate and the authority must complete its certificate before the claim or return is sent to the auditor. The authority certificate may provide assurance on areas not appropriate to include in the auditor’s certificate. The certificate required from a Commission appointed auditor must be in the standard form set by the Commission. Certificates should be agreed and incorporated in the claim or return at the design stage;
- specify who may complete the authority’s certificate. In local government, this will normally be the responsible financial officer under section 151 of the Local Government Act 1972 but the grant-paying body may decide another person is better placed to provide the assurance required; and
- specify who may complete the auditor’s certificate. This will usually be any appropriately qualified independent accountant or the Commission’s appointed auditor, but internal auditor certification may be acceptable. Requirements must be clear, for example, ‘your auditor’ could be an internal or external auditor. Grant-paying bodies must agree terms with any appropriately qualified accountant used or with the Commission for a Commission appointed auditor. A grant-paying body...
should contact the Commission at an early stage if it intends to require certification by a Commission auditor (see the section on liaison with the Commission below).

Liaison with the Commission

28 Where grant-paying bodies specify arrangements that require, or might require, certification of claims or returns by 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 a particular scheme.

29 The arrangements grant-paying bodies need to be familiar with 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 that the Commission will not make arrangements to certify claims and returns for amounts below a minimum level set by the Commission. It will also 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 a scheme; and
- Certification Instruction CIA01 General Certification Instructions (Audit Commission – available from www.audit-commission.gov.uk) which provides general guidance to auditors on the certification of claims and returns and explains the Commission’s approach and procedures. It sets out:
  - the approach to certification work;
  - administrative processes for appointed auditors;
  - matters that appointed auditors should consider when planning certification work;
  - the general tests performed on claims and returns; and
  - guidance on completing certificates and qualification letters.

30 Grant-paying bodies must consult the Commission in time for it to put the necessary arrangements in place. The Commission will draft certification instructions for its appointed auditors based on the scheme’s terms and conditions and requires the grant-paying body’s written agreement of the draft instruction before publication.

31 The Commission will provide reasonable support to a body devising a new scheme where auditor certification may be required. This will include:
- discussing whether the scheme meets the Commission’s criteria for making certification arrangements;
- deciding whether auditors can provide the assurance required by the grant-paying body;
- providing a timely assessment of whether a new or revised scheme can be certified at reasonable cost;
discussing certification timetables; and
advising on draft forms and guidance.

Post-certification follow up

32 Grant-paying bodies should have effective arrangements for dealing with certified claims and returns. These should cover:

- checking that claims and returns, including certificates, are complete;
- resolving any questions with authorities and, if necessary, auditors;
- processing amendments, following up quickly any that require investigation before settling;
- dealing with matters arising in auditors’ qualification letters, following up quickly issues that require more work;
- agreeing and 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 amendments or clarification is required.

33 Grant-paying bodies should keep a record of authorities expected to present a claim or return and monitor progress, noting the dates and amounts of claims and returns received through to final settlement. It is a condition of the Commission making certification arrangements that grant-paying bodies agree to provide information to the Commission on the outcome of certification work. Grant-paying bodies must have arrangements in place to:

- monitor the receipt of authority certified claims or returns and chase missing ones;
- monitor the receipt of auditor certified claims or returns and chase authorities for ones not received by the deadline; and
- provide the Commission with information on the outcomes of certification work.
Claims and returns: good practice checklist

The following checklist is designed to help grant-paying bodies to review their arrangements for claims and returns by reference to the good practice set out in this guidance. A grant-paying body should take action where it cannot answer ‘Yes’ or ‘Not applicable’ (N/A) to the following questions.

<table>
<thead>
<tr>
<th>Yes or N/A</th>
<th>Action required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Have the scheme terms and conditions, including certification requirements, been decided following a thorough assessment of what is required and the sources of assurance available? (paragraphs 5-8, 23-26)</td>
</tr>
<tr>
<td>2</td>
<td>Do terms and conditions set out clearly (paragraphs 9-13):</td>
</tr>
<tr>
<td>2a</td>
<td>the eligible authorities, eligible activities and costs and the scheme period;</td>
</tr>
<tr>
<td>2b</td>
<td>the certification arrangements;</td>
</tr>
<tr>
<td>2c</td>
<td>the accounting basis required and any special treatment for particular items;</td>
</tr>
<tr>
<td>2d</td>
<td>how authorities show they have complied with scheme terms and conditions and any performance measures;</td>
</tr>
<tr>
<td>2e</td>
<td>the basis on which grant or subsidy is payable, including approval and virement arrangements;</td>
</tr>
<tr>
<td>2f</td>
<td>the accountability arrangements for schemes involving partnerships;</td>
</tr>
<tr>
<td>2g</td>
<td>minimum standards for documentation; and</td>
</tr>
<tr>
<td>2h</td>
<td>arrangements for dealing with overpayments and errors and any penalties?</td>
</tr>
<tr>
<td>3</td>
<td>Are terms and conditions and forms available in good time and are claims or returns based on a normal accounting year, basis and timetable? (paragraphs 14-16)</td>
</tr>
<tr>
<td>4</td>
<td>Are claim forms and returns properly designed and properly supported by guidance notes? (paragraphs 17-18)</td>
</tr>
<tr>
<td></td>
<td>Yes or N/A</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
</tr>
<tr>
<td>5</td>
<td>Are arrangements in place to provide support and advice to authorities and to periodically review scheme terms and conditions? (paragraphs 19-22)</td>
</tr>
<tr>
<td>6</td>
<td>Do certification requirements follow a thorough assessment of the assurance needed and the sources of assurance available and are certification arrangements specified clearly? (paragraphs 23-27)</td>
</tr>
<tr>
<td>7</td>
<td>Where certification by a Commission appointed auditor is required, have the necessary arrangements been made with the Commission? (paragraphs 28-31)</td>
</tr>
<tr>
<td>8</td>
<td>Are arrangements in place to deal promptly with certified forms including dealing with amendments, auditor qualifications, making final payments, pursuing overdue returns and providing information to the Commission on the outcome of certification work? (paragraphs 32-33)</td>
</tr>
</tbody>
</table>
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.