Claims and returns: Good practice for authorities
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.
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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 Authorities are responsible for the proper and accurate preparation of claims and returns and for setting up effective administrative and financial systems, including proper arrangements to prevent and detect fraud. If these arrangements work effectively, the time, and therefore cost, to the authority of auditor certification is reduced. The Commission has prepared this guidance setting out what it considers to be good practice for authorities managing schemes that require certification of claims and returns by a Commission appointed auditor.

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 elements of good practice for authorities

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

6 Authorities must satisfy themselves they are able to comply with the terms and conditions of a scheme, including auditor certification requirements, before accepting them.

7 The key areas for authorities are:
   ■ identifying schemes;
   ■ managing schemes; and
   ■ liaison with the Commission’s appointed auditor.
Identifying schemes

8 It is important that an authority identifies all the schemes providing grants or subsidies for which it may be eligible. Not all schemes apply to all authorities and it is a challenge, particularly for new funding sources to identify all those available to a particular authority.

9 Authorities should nominate an individual, perhaps a claims and returns coordinator, to be responsible for collecting information about schemes relevant to the authority. The coordinator should:

■ maintain a comprehensive register of schemes, drawing information from internal and external sources including grant-paying body and authority association websites and publications; and

■ oversee the preparation of claims and returns across the authority, reviewing correspondence received by other officers about new, revised and continuing schemes, and acting where necessary as a contact point for the appointed auditor.

10 The Commission produces an index of certification instructions covering schemes that may require appointed auditor certification. Coordinators may find it useful to refer to the index and can secure a copy from their auditor. However, the index covers only schemes that require appointed auditor certification so it is not a list of all funding available or a list of all claims and returns required.

Managing schemes

11 The responsible finance officer of a local authority is responsible for its accounting records and control systems. These should be in accordance with proper practices, be up-to-date and include a record of income and expenditure in relation to claims and returns.

12 Authorities need to ensure their claims and returns are:

■ completed accurately and in accordance with the scheme terms and conditions;

■ completed in a timely fashion so that deadlines are met;

■ supported by adequate working papers;

■ subject to internal controls; and

■ subject to proper supervision and review before completion of the authority’s certificate.

The following subsections develop each of these points.

Completed accurately and in accordance with the scheme terms and conditions

13 Authorities need to have a full understanding of scheme requirements. Those responsible for incurring expenditure and for compiling claims and returns need to ensure that expenditure falls within the scheme rules and that records support entitlement to grant or subsidy or the information included in a return. This means authorities need to:
identify the key terms and conditions of a scheme at an early stage, particularly where scheme rules are complex; and
keep this information up-to-date, reflecting changes to a scheme quickly so claims and returns reflect current scheme requirements.

14 The key terms and conditions include:
- the definition of qualifying expenditure;
- the rates of grant or subsidy for different types of expenditure;
- whether the grant-paying body must approve bids or spending plans;
- any limits or caps on grant or subsidy;
- the financial and non-financial information required to claim grant or subsidy or complete a return; and
- the effect of errors, omissions or late submissions in terms of lost grant or subsidy or other penalties.

15 Authorities should take the opportunity to comment on proposals for new schemes. In particular, authorities should when necessary seek early clarification from grant-paying bodies of policy statements, scheme conditions and definitions of eligible expenditure. Where there is doubt about the terms and conditions for existing schemes, authorities should seek written clarification from the grant-paying body. Authorities need and should retain written advice from grant-paying bodies to support the action they take.

16 Good practice includes:
- ensuring the authority’s contact for communications from the grant-paying body (possibly the claims and returns coordinator) sends documents promptly to all officers who need to know about them. Where grant-paying bodies address communications to, for example, the chief executive or responsible finance officer, the authority should have arrangements to refer the documentation to the appropriate person without delay;
- having a ‘champion’ for any large scheme, who is the authority’s expert and is responsible for:
  - maintaining a comprehensive set of scheme documents including guidance, circulars and other reference materials;
  - preparing bulletins and briefing notes on scheme developments for other officers;
  - securing written advice from the grant-paying body where there is any doubt about what the scheme terms and conditions require; and
  - commissioning any training required for scheme administrators or finance staff;
- agreeing a fair and consistent policy for apportioning overheads and other support costs across claims and returns that do not include specific instructions for these costs; and
- setting up a claims and returns register and ensuring that all staff completing claims and returns are aware of their responsibilities, including deadlines and the consequences of not meeting them.
Completed in a timely fashion so that deadlines are met

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

18 Although most good practice points on completing claims and returns in a timely fashion are obvious, some authorities miss deadlines. Good practice includes:

- confirming at the start the deadlines for submission of claims and returns and agreeing a timetable for each stage;
- setting up a claims and returns register, reviewing it regularly and keeping it up-to-date. Authorities should use the register to monitor progress, to identify any delays and actions necessary and to keep the grant-paying body and auditor informed; and
- ensuring that all staff involved in compiling claims and returns are aware of their responsibilities for meeting deadlines and the consequences of not doing so.

19 Timetables need to reflect:

- when officers are available to complete the claims and returns;
- when any administrative support needed is available;
- when any special reports from financial systems, or other information needed, will be available;
- the timing of any assurance required from internal audit or from partners’ auditors; and
- the impact of claims and returns deadlines on the closure of accounts programme.

Supported by adequate working papers

20 Working papers supporting claims and returns should:

- satisfy the statutory requirement on the responsible finance officer of a local authority to keep income and expenditure records in relation to claims;
- document the basis of the claim or return and the information it contains; and
- be in a form that helps the appointed auditor minimise certification time and, therefore, the cost to the authority.

21 Both the responsible finance officer and the auditor need to refer to working papers in preparing to sign their certificates. The basic requirement of good supporting documentation is that it should allow reviewers to trace any entry on the claim or return to the underlying evidence that supports it.

22 Authorities should set standards for documentation and working papers. Working papers should include:

- the date of preparation and the name of the officer preparing the working papers;
- cross-references to the entries on the claim or return to which the working paper relates;
- cross-references to the system or copies of system printouts providing the information;
- copies of original approvals, later 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 responsible 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 files;
- evidence that any contracts were let in accordance with standing orders; and
- evidence of independent review of expenditure included in the claim or return, but incurred by another body.

23 Authorities can take steps where necessary to raise standards of documentation by:
- providing training for officers on preparing good working papers, perhaps making use of the experience of appointed auditors; and
- developing standard documentation, including computerised working papers and spreadsheets.

24 Where compiling claims or returns is contracted out, with some or all the finance function, authorities should ensure the contract specification includes the minimum documentation standards required.

Subject to internal controls

25 The particular controls required will vary by scheme. The normal controls within payroll, creditors and accounting systems will often be sufficient for claim or return purposes. However, in some cases, the systems and controls required will be specific to a particular scheme, for example, the systems and controls for housing benefit, non-domestic rating or teachers’ pensions.

26 The arrangements in each case should include:

- separate cost codes for each claim or return. Each cost centre should have a coding structure adapted to produce the form entries and a clear audit trail linking form entries to the accounts and supporting records. Each cost centre should be subject to controls for authorising, coding and recording transactions including data posted from other financial systems and journals;
procedures to show that third parties used funding for the intended purpose. An authority needs to be able to satisfy itself, and subsequently its auditor and the grant-paying body, that only eligible expenditure is claimed. Arrangements may include getting independently certified statements from partners supporting the eligibility of expenditure, a payments monitoring system during the year (supported by prime records) 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 third party’s financial records and allows for scrutiny of its stewardship arrangements, perhaps by internal audit;

budgetary control and cash flow monitoring to identify instances where the authority might not have secured its full grant or subsidy. Authorities need to forecast expenditure accurately in order to maximise their grant or subsidy within the scheme rules, and to avoid under or over claiming or cash flow difficulties. Authorities should estimate the grant or subsidy due or amounts payable in respect of a return, using forecasts of activity and costs for the coming year. Authorities should adjust estimates when changes in circumstances or scheme conditions significantly affect the grant or subsidy an authority can expect to receive or the amount it can expect to pay. Authorities should monitor the receipt of income against forecasts to identify and take action where there is a shortfall. The responsible finance officer should receive regular reports from the scheme champion or claims and returns coordinator; and

internal audit. Internal audit can provide assurance that financial and other systems performed satisfactorily over the period covered by a claim or return. Liaison between the internal and appointed auditors, particularly about certification requirements, should help internal audit provide assurance to both the certifying officer before completion of the authority certificate and to the appointed auditor.

Subject to proper supervision and review before completion of the authority’s certificate

Grant-paying bodies invariably require a senior authority officer to complete the authority’s certificate. This is typically the responsible finance officer, but sometimes grant-paying bodies permit certification by another officer or an authority allows another to sign on behalf of the responsible finance officer under written delegated powers.

Completion of the authority’s certificate confirms the certifying officer is satisfied the claim or return is in accordance with the scheme terms and conditions. Certification does not require the certifying officer to carry out an audit of the claim or return. However, supervision and review procedures must provide the certifying officer with enough assurance to complete the authority’s certificate. Arrangements that help to provide the necessary assurance include ensuring that:

- officers compiling claims and returns have appropriate expertise and knowledge of the scheme;
- working papers supporting claims and returns follow the good practice outlined above;
before certification, claims and returns are checked for arithmetical or clerical errors, reviewed for completeness and reasonableness and entries test checked to supporting documentation, by an officer not directly involved in their compilation; and

- the checking, review and resolution of matters arising is recorded.

29 A claims and returns coordinator may have responsibilities connected with supervision, review and certification stages. These may include:

- ensuring that officers completing claims and returns have the necessary expertise, particularly those officers without relevant accounting experience;
- ensuring that officers take action to address points arising from previous auditor certification work before completing the current claim or return;
- providing management information on:
  - 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 against deadlines; and
  - adjustments and qualification issues identified by auditor certification.

Liaison with the Commission’s appointed auditor

30 Grant-paying bodies may restrict certification to the Commission’s appointed auditor, or to any appropriately qualified and independent accountant. Where an authority does not use its Commission appointed auditor, it needs to be able to confirm to the grant-paying body that the accountant used is independent and holds any qualifications required.

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

32 It is important that authorities and appointed auditors agree the claims and returns expected and a timetable for their preparation and certification. The timetable needs to take account of the dates when key information and authority staff are available, the dates of auditor visits and the need to integrate certification work with other work by the authority or appointed auditor. An allowance should be built-in for any extra work that may be needed to address issues identified by the auditor’s initial testing.
An authority may find it helpful to agree a protocol with its appointed auditor, stating what each needs to do by when. For example, where internal audit will do work on claims and returns, the agreement should cover the planning, approach and documentation of the work. It should also cover the use of certification instructions and how issues arising from the internal auditor’s work will be dealt with.

In February each year, appointed auditors report the results of certification work to those charged with governance at each local authority. The report provides a summary of an authority’s performance in relation to claim and return certification for the previous year. Authorities should review this report and take action where the report identifies there is scope to improve standards of claims and returns preparation.
Grant claims and returns: good practice checklist

The following checklist is designed to help authorities to review their arrangements for claims and returns by reference to the good practice set out in this guidance. An authority 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>Are the requirements of the scheme clear and arrangements in place to ensure the claim or return is completed accurately and in accordance with all terms and conditions? (paragraphs 13-16)</td>
</tr>
<tr>
<td>2</td>
<td>Are arrangements in place to ensure the claim or return is completed in a timely fashion? (paragraphs 17-19)</td>
</tr>
<tr>
<td>3</td>
<td>Are arrangements in place to ensure the claim or return is supported by adequate working papers? (paragraphs 20-24)</td>
</tr>
<tr>
<td>4</td>
<td>Are internal controls in relation to the claim or return adequate and effective? (paragraphs 25-26)</td>
</tr>
<tr>
<td>5</td>
<td>Are arrangements in place to ensure the claim or return is subject to proper supervision and review? (paragraphs 27-29)</td>
</tr>
<tr>
<td>6</td>
<td>Where appointed auditor certification of the claim or return is required, have the necessary arrangements been made? (paragraphs 30-33)</td>
</tr>
<tr>
<td>7</td>
<td>Has the authority considered the appointed auditor’s report to those charged with governance on the results of certification work and taken action where the report identifies scope to improve standards of claims and returns preparation? (paragraph 34)</td>
</tr>
</tbody>
</table>
## Grant claims and returns: review checklist for authorities

Authorities may find it useful to follow this checklist when reviewing a completed claim or return before completing the authority’s certificate. An authority 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>Has the claim or return been submitted using the form or format required by the grant-paying body?</td>
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<tr>
<td>2</td>
<td>Have all relevant parts of the claim or return been properly completed?</td>
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<tr>
<td>3</td>
<td>Is all arithmetic on the claim or return correct?</td>
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<tr>
<td>4</td>
<td>Do claims and returns (a) completed on an income and expenditure basis, agree with the authority’s accounting records or data for the claim or return period; or (b) completed on a receipts and payments basis, reconcile with the authority’s income and expenditure accounts or data for the claim or return period?</td>
</tr>
<tr>
<td>5</td>
<td>Does enquiry and, where appropriate, comparison with the previous claim or return, provide assurance that the claim or return entries are reasonable?</td>
</tr>
<tr>
<td>6</td>
<td>Are supporting records and working papers available to the reviewer and are they adequate to support the entries in the claim or return?</td>
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<tr>
<td>7</td>
<td>Are contracts reflected in the claim or return awarded in accordance with standing orders and any specific procurement rules required by the scheme?</td>
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<tr>
<td>8</td>
<td>Are charges for goods or services provided in-house made on the same basis as those charged to non-grant or subsidy earning areas?</td>
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<tr>
<td>9</td>
<td>Has duplication with other claims or returns been avoided?</td>
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<tr>
<td>10</td>
<td>Are payments on account appearing on the claim or return those received in respect of the period up to the date of the authority’s certificate?</td>
</tr>
<tr>
<td>11</td>
<td>Is the senior officer preparing to certify the claim or return authorised to do so under the terms of the scheme?</td>
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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.