CIPFA is the leading professional accountancy body for public services, whether in the public or private sectors.

We provide education and training in accountancy and financial management, and set and monitor professional standards.

Our professional qualification is high-quality, relevant and practical, and is supported by a range of other products and services.

The Audit Commission … promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.
Taken for GRANTED
Local Authorities' Arrangements for Grant Claims
A MANAGEMENT HANDBOOK
## CONTENTS

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One of the main objectives of CIPFA and the Audit Commission is to ensure the continued integrity of local authorities’ financial administration. An important part of financial administration is the preparation and submission of grant claims and returns for audit certification.

Whilst both CIPFA and the Audit Commission have issued advice on general accounting matters, there has been less emphasis placed on the administration of grant claims. Local authorities have also not given it the highest priority, yet the sums involved are considerable. It is an area which has been Taken for Granted.

It is important that there are efficient and effective arrangements in place at local authorities to ensure there are no deficiencies in the ways grant claims and returns are handled. This responsibility assumes added importance with the issue of the Accounts and Audit Regulations 1996, which specifically require the maintenance of records relating to grant claims in accordance with proper practices.

This handbook has been prepared to suggest what those proper practices should be and to highlight examples of good practice. It draws on fieldwork which was carried out at English and Welsh authorities of different types and sizes: five metropolitan borough councils, five district councils, three county councils and three London boroughs (see below). It also draws on comments arising from a joint Department of the Environment/Audit Commission seminar on grants. A selection of reports by auditors on grant claims management were reviewed as were documents submitted by a number of other authorities.

- Alyn and Deeside District Council
- Barnsley Metropolitan Borough Council
- Chelmsford Borough Council
- Cheshire County Council
- Devon County Council
- Essex County Council
- Forest Heath District Council
- London Borough of Barking and Dagenham
- London Borough of Ealing
- London Borough of Tower Hamlets
- Rochdale Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Swansea City Council
- Tewkesbury District Council
- Trafford Metropolitan Borough Council
The fieldwork was carried out by Sheila Hill of District Audit, on secondment to the Audit Support Directorate of the Audit Commission, supported by Mike Barnes of that directorate. The results of the fieldwork were reported to the Local Authority Accounting Panel of CIPFA.

**Note on Format of Handbook**

Each chapter of the handbook is followed by a series of key questions which financial managers (or accountants) may find worthwhile to answer, perhaps in conjunction with colleagues both inside and outside the finance department.
SUMMARY OF KEY POINTS

The number of grant claims and returns remain high and the amount of money involved is substantial.

•

Local authorities are now required by statute to maintain proper records for grant claims.

•

Local authorities need to manage their procedures effectively to ensure achievement of their full entitlement to grants.

•

Local authorities can achieve considerable improvements in their management of grant claims through:

  – appointing a co-ordinator for grants work

  – planning for timely submission of claims

    – supervising work on claims.

•

Internal audit can play a valuable role in ensuring the accuracy of grant claims.

•

Liaison with external audit is essential to achieve prompt and accurate submission of claims.
Chapter 1
INTRODUCTION

Contents

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<th>Paragraph</th>
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Appendices

1A: Grant Claim Working Party recommendations
1B: Example of an Audit Commission grant instruction
Introduction

1.1 The preparation and submission of grant claims and returns by authorities to government departments is a complex business. Currently there are around 100 separate claims and returns. Not all schemes are applicable at any one authority. Annual payments to local authorities in respect of claims and returns requiring audit certification exceeded £30 billion in England and Wales in 1995-96 according to HM Treasury public expenditure figures.

<table>
<thead>
<tr>
<th>Current revenue grants</th>
<th>1995/96 estimated outturn £m</th>
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<tbody>
<tr>
<td>Rent allowances</td>
<td>4,708</td>
</tr>
<tr>
<td>Rent rebates</td>
<td>3,597</td>
</tr>
<tr>
<td>Police</td>
<td>3,192</td>
</tr>
<tr>
<td>Mandatory student awards</td>
<td>2,095</td>
</tr>
<tr>
<td>Council tax rebates</td>
<td>1,826</td>
</tr>
<tr>
<td>Community care special grant</td>
<td>648</td>
</tr>
<tr>
<td>Probation</td>
<td>303</td>
</tr>
<tr>
<td>Magistrates' courts</td>
<td>244</td>
</tr>
<tr>
<td>Grants for education, support and training</td>
<td>134</td>
</tr>
<tr>
<td>Community services</td>
<td>51</td>
</tr>
<tr>
<td>Non domestic rate payments</td>
<td>11,874</td>
</tr>
<tr>
<td>Other</td>
<td>1,315</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,987</strong></td>
</tr>
<tr>
<td><strong>Capital grants</strong></td>
<td><strong>1,633</strong></td>
</tr>
<tr>
<td><strong>Overall Total</strong></td>
<td><strong>31,620</strong></td>
</tr>
</tbody>
</table>

In addition there is a further amount of around £100 million for European Regional Development Fund grant. The cost to authorities for certification, in the form of audit fees, totalled around £9.3 million in 1995/96.

1.2 Despite the large sums involved, the preparation and submission of grant claims has not attracted a high profile within local authorities. The Audit Commission took action in 1993 by setting up a working party, which reported in December 1993 making over 50 recommendations, a number of which were addressed specifically to local authorities. Appendix 1A sets out the working party’s recommendations.

1.3 Many authorities have not recognised fully the importance of establishing effective arrangements which would allow claims to be prepared, submitted and certified in the minimum time and at least cost. The aim of this handbook is to:
• provide local authorities with pointers on how they can improve their performance in this area;

• assist local authorities in meeting the requirements of the Accounts and Audit Regulations 1996 which apply from 1 April 1996; and

• satisfy the common interests of preparers and auditors.

Background

1.4 It is the authority's responsibility to maintain adequate records and supporting documents and, on the basis of these, to complete the claim form fully and accurately. Paying departments often set down deadlines for receipt of interim claims, pre-audit and final certified claims. It is the authority's responsibility to ensure that claims reach paying departments by the specified deadline. Where such a deadline is not met, further payments on account from the department may be suspended or abated.

1.5 Section 29(1) of the Local Government Act Finance 1982 gives authorities whose accounts are subject to audit in accordance with part III of that Act the power to require the Audit Commission to make arrangements for certifying their claims and other returns where certification is required or authorised by statute.

1.6 The auditor's role is to secure equity between local authorities and paying departments and the Audit Commission issues instructions to auditors on the certification of grants and returns (GIs) which:

• prescribe minimum standards to be applied in the examination of claims and returns;

• give the background to the scheme; and

• set out tests which seek to obtain sufficient evidence that the claim:

  – is presented fairly;

  – agrees with the local authority's accounts; and

  – complies with the conditions of the scheme as set out by the paying department.
1.7 GIs are issued after consultation with local authority associations, government departments and the National Audit Office. There is a separate GI for each grant and return which requires audit certification. The Commission's appointed auditors are required to follow these instructions.

1.8 GIs are intended for use by the Commission's appointed auditors but are not confidential. The Commission encourages its appointed auditors to provide authorities with copies of relevant instructions if requested. An example of a GI is attached at appendix 1B.

Need for Improvement

1.9 There is a definite relationship between the arrangements made by management for the preparation and submission of claims at an authority and the adequacy and accuracy of individual claims. Without clear management procedures extra costs can be incurred through:

- loss of entitlement;
- interest on borrowing to cover deferment or withholding of grant entitlement by paying departments;
- accountancy and other staff compiling working papers which should already be in existence;
- higher audit fees as a result of problems in documentation; and
- accountants and other staff having to answer additional audit queries.

1.10 The revised Accounts and Audit Regulations 1996 require the

"... accounting records determined by the responsible financial officer to contain, amongst other matters, a record of income and expenditure of the body in relation to claims made, or to be made, by them for contribution, grant or subsidy from any Minister of the Crown, a body to whom such a Minister may pay sums of money provided by Parliament or a Community institution."

The keeping of proper records for grant claims and returns is therefore a statutory requirement.

1.11 Paying departments are becoming more rigorous in taking action on auditors' reports. Such action may require extra work by authorities which could have been avoided if the
claims process had been managed better from the outset.

1.12 A number of authorities have carried out reviews of their arrangements on grant claims and this has led to improvements. Others are still experiencing difficulties, especially in:

- meeting the deadlines laid down by paying departments;
- providing good working papers;
- integrating grants work with the closure of accounts and production of financial statements;
- producing a pre-audit review of claims;
- producing management information on claims, such as a register of claims, cost and time spent by authority staff on each grant claim, amounts of and reasons for adjustments made by auditors;
- use of internal audit work in grant related areas and its link to the managed audit approach of external audit.

1.13 In some instances problems lie outside the influence of the authority. For example, late changes to the grant scheme requirements by grant paying bodies sometimes place unreasonable demands on authorities’ systems, for example the major changes to software required by housing benefit. The schemes may be introduced with insufficient consultation and may be complex. These are issues which must be resolved in conjunction with paying departments which are now seen to be taking a more positive approach to such problems.

1.14 Within an authority there may be problems in achieving improvements, such as:

- the failure to recognise the importance of claims;
- the lack of experienced staff with available time;
- difficulties in co-ordinating the involvement of internal audit.
Grant Claims Working Party Recommendations

Action by the Audit Commission centrally:

- reformatt[ing] grant instructions to improve their focus, direction and referencing (paragraph 34);

- reviewing grant instruction A2 Introduction and General Matters in order to strengthen the current advice on reporting, to re-emphasise the importance of assessing the claims control environment before engaging in detailed testing, and to re-assert the importance of integrating grants work with work on the main audit, wherever possible (paragraphs 34, 58 and 96);

- preparing standard control documentation to help auditors in enhancing control, review, reporting and completion procedures (paragraphs 34 and 96);

- issuing grant instructions to auditors more promptly, wherever possible (paragraph 34);

- collecting grants time data from auditors systematically each year, which, following central analysis, can be circulated to auditors for examination and appropriate action (paragraph 48);

- based on its analysis of grants time spent at the most recent audit round, publishing time guidance annually for each major claim in order to equip auditors better before commencing detailed work on the next year's claims (paragraph 48);

- enhancing the current system for pursuing overdue claims and returns (paragraph 67);

- providing increased training for auditors (paragraph 96);

- reviewing the GI covering note both as to its presentation and distribution arrangements (paragraph 96);

- considering, for the more complex claims, the progressive implementation of specific reporting procedures akin to those established for HRA subsidy (paragraph 96);

- adopting a more pro-active role in reviewing reports on claims (paragraph 96);
Chapter 1: INTRODUCTION

- enhancing the Commission's quality control processes by increased participation from the central grants team (paragraph 96);

- establishing a framework, perhaps in the form of a grants audit advisory group, which facilitates a continuing dialogue between auditors and the Commission about practical problems and improvement opportunities, including the use of computers in grants work (paragraphs 96 and 106);

- maintaining a continuing dialogue with the DoE on the audit implications of any proposed move away from paper copies of claim forms to a form of direct data transfer (paragraph 106);

- considering whether a study under s27 of the 1982 Act, possibly in conjunction with the National Audit Office, would be helpful in this area (paragraph 125);

- considering afresh the factors which weigh in favour and against the creation of an alternative fee rate of grants work (paragraph 130);

- assessing the resources implications for the Commission and its auditors which acceptance of this report's recommendations would bring (paragraph 135);

- pursuing with government departments, the National Audit Office, the local authority associations and the various treasurers' societies the various ideas for improvement identified in this report (paragraph 135).

**Action by auditors:**

- making copies of relevant grant instructions available to local authorities (paragraph 34);

- reviewing the grants time at authorities against the data distributed by the working party, investigating the reasons for any major variances from the norm, and taking appropriate audit action (paragraph 48);

- endeavouring, wherever possible, to achieve greater integration between work on grant claims and returns, and work on the main audit (paragraph 58);

- at the coming audit round, giving specific consideration to those claims and returns identified in this report to determine whether improved audit integration can be achieved (paragraph 58);
• pursuing 'stragglers' (authorities with overdue claims and returns) vigorously at the local level (paragraph 67);

• nominating, within each DA region or firm, a claims co-ordinator who would be charged with taking a more assertive role on grants (including, liaison with the Commission's central grants team, giving advice locally on queries, leading local training, reviewing draft claims reports for consistency, focusing 'stragglers' action locally etc) (paragraph 97);

• providing more senior audit assistance and time to the more complex claims (paragraph 97);

• reviewing the operational implementation of the Commission's delegation arrangements in respect of the certification of major claims (paragraph 97);

• developing the 'lead auditor' concept for the more complex claims where greater specialisation would bring significant benefits (paragraph 97);

• enhancing audit review of claims work and adopting, for each claim and return, the proposed new control documentation (paragraph 97);

• improving the approach to reporting on claims, eliminating unnecessary and cryptic reporting etc (paragraph 97);

• assuming a more pro-active role at an early stage in the audit cycle in agreement with authorities for which claims are to be audited, the timetable, the likely audit times, and the likely cost (paragraph 117);

• undertaking a local audit project at each relevant authority, aimed at improving the whole claims environment (paragraph 117);

• providing authorities with a simple checklist which emphasises the supporting evidence required in grants working papers (paragraph 117);

• exploring the benefits of undertaking local training initiatives with authorities (paragraph 117).

**Action by authorities:**

• reviewing existing grants arrangements to raise the relative profile and importance to the authority of this area of work (paragraph 116);
• assigning appropriate staffing resources to grants work and nominating an officer of sufficient status with overall responsibility for co-ordination and supervision of grants work (paragraph 116);

• timetabling grants work effectively and monitoring progress regularly in order to meet deadline dates (paragraph 116);

• enhancing the review of individual grants compilation before submission to government departments and the external auditor (paragraph 116);

• improving the overall standard of documentation necessary to support claims, with better quality working papers, an explanation of major issues and problems associated with any claim etc (paragraph 116);

• undertaking appropriate, effective internal audit work (for example, systems work on benefit payments) which may be relied upon by the external auditor (paragraph 116);

• strengthening the liaison arrangements with the external auditor (paragraph 117).

**Action by government departments and other grant paying bodies:**

• reviewing critically current grant requirements against the criteria identified in this report (paragraph 124);

• reducing the complexity of grant schemes, regulations and accompanying claim forms (paragraph 124);

• seeking to provide improved, clearer guidance to authorities on the information needed to support claims, the records to be maintained etc (paragraph 124);

• acting promptly on auditors' reports on claims to obviate the need for continuing audit qualifications (paragraph 124);

• preparing and issuing authorities with claim forms on a more timely basis — if possible, within the accounting period to which they relate (paragraph 124);

• bringing an improved appreciation of local authority circumstances and their ability to provide information in the form required (paragraph 124);

• providing more practical training and support for authorities and auditors on the more complex claims (paragraph 124);
• considering the need for audit certification of claims involving *de minimis* amounts, and instead placing greater reliance on self certification by authorities (paragraph 124);

• considering a cyclical approach to the audit certification of some types of claims (paragraph 124);

• eliminating requests for the re-submission and re-audit of claims which fail validation checks for *de minimis* amounts (paragraph 124);

• strengthening the liaison and consultation arrangements between departments and the Commission (paragraph 124).
Appendix 1B

Instructions to Auditors on the Certification of Grants and Returns
INTRODUCTION

1. LEAs are required, by section 1(i) of the Education Act 1962, as amended, to pay mandatory awards in accordance with the Education (Mandatory Awards) Regulations. Payments comprise:
   (a) maintenance grants paid to students; and
   (b) tuition fees paid to colleges.

DfEE pays 100% specific grant, under s209 of the Education Reform Act 1988, on payments which have been properly made by LEAs under the Regulations.

SUBMISSION PROCEDURE

2. Advances of grant, based on estimates by LEAs, are paid into the LEA’s Paymaster’s account in April, May, September, November and January, with adjustment on receipt of the pre-audit and audited claims.

3. Authorities complete the final claim form UG8/95 in duplicate, the audit version to be sent by 30 September to an independent auditor of their choice, the pre-audit to be sent direct to DfEE. The certified claim is to be sent direct to:
   Department for Education and Employment
   Student Support Division
   Mowden Hall
   Staindrop Road
   DARLINGTON
   Co Durham
   DL3 9BG

CERTIFICATION

4. The audit certificate is to be completed only in accordance with paragraphs 33 to 37 of Gl A2 on completion of the tests specified below. Reporting paragraphs 38 to 40 of Gl A2 must be followed.
REFERENCES

5. Reference to the following source documents is necessary in order to complete the required tests:

Regulations

Education (Mandatory Awards) (No2) Regulations 1993, SI 2914, as amended by

The Education (Mandatory Awards) Amendment (No2) Regulations 1994, SI 3043 (effective 1 January 1995).

from 1 September 1995

Education (Mandatory Awards) Regulations 1994, SI 3044.

The following source documents are listed for information only; it should not be necessary to refer to these unless there is uncertainty or disagreement with the authority:

ACL 3/94 Fraudulent Applications for Mandatory Awards / Recovery of Award Overpayments. 24 June 1994

INFORMATION RELEVANT TO SPECIFIC TESTS

Control environment

6. The auditor needs to be satisfied that the LEA's system for determining awards is being operated in accordance with the Regulations, in particular that the system ensures payments are made only:

(a) in respect of eligible students;

(b) attending eligible courses; and

(c) at the correct rate.

Generally this assurance can be achieved by enquiry and review of documentation, and compliance testing of individual awards. Wherever possible auditors should place reliance on work done for opinion purposes, using form AF65 to document this, but taking account of the higher degree of assurance required for certification work.

7. The CFO's certificate includes a statement that "the LEA's administrative systems, procedures and controls for making mandatory awards operate effectively". Auditors should enquire of LEAs the basis on which CFO's have satisfied themselves that this requirement has been met, and report facts where doubts about the adequacy of systems arise.

8. Auditors should also be aware of DfEE's advice on fraudulent applications for mandatory awards (ACL 3/94). The primary responsibility for maintaining sound financial arrangements to prevent fraud rests with local authority management. The external auditor must be satisfied with the authority's arrangements for meeting this responsibility. Chapter 4 of the Audit Commission's fraud audit manual contains a module covering student awards which auditors should refer to in assessing the effectiveness of the authority's arrangements.

9. Auditors should establish, through enquiry and review, whether authorities are taking reasonable steps to prevent and detect fraud and whether appropriate controls are in place.
(paragraph 14 of ACL 3/94 refers), reporting if not satisfied that reasonable steps have been taken.

Analytical review

10. When comparing the claim and working papers with those of the previous period the expected variation from the previous year can be assessed only approximately because of:

(a) the requirement on LEAs to compile their claims on payment policies adopted prior to 1974 which makes inter-authority comparisons invalid;

(b) the wide range of factors to be taken into account as detailed below, in part arising because each financial year claim covers two academic years:

(i) the number of students attending courses varies between academic years. DfEE have indicated that nationally student numbers have increased by 6% in academic year 1994-5 and 0.45% in academic year 1995-6;

(ii) differentiated maximum fees were introduced on 1 September 1991. Courses are categorised into one of three bands with maximum fee rates of £750, £1600 and £2800 for the academic years 1994-5 and 1995-6. DfEE have estimated that the weighted average fee for the academic year 1994-5 is £1228 and £1248 for 1995-6;

(iii) the average maintenance payment (the difference between the average full-value award and the average parental contribution) varies between LEAs and between academic years. For academic year 1994-5 the main grant rates were reduced by approximately 10% and the supplementary rates were increased by 4%. For 1995-6 the main grant rates were reduced by various percentages, ranging from 5% for students living in the parental home to over 8% for those living away from home while staying in London. The supplementary rates were increased by approximately 2.5% in 1995-6.

Basis of claim

11. With the introduction of mandatory awards grant on 1 April 1974, DfEE notified LEAs on 23 November 1973 that grant would be strictly related to payments and that authorities would be expected to adhere to their normal accounting practices and their usual pattern of payments. Auditors should check that:

(a) the claim is completed on a payments basis, in accordance with guidance notes for completion of the form;

(b) 1995-6 claims have been prepared on a basis consistent with last year, any changes in accounting policy being reported; and

(c) the correct number of terms has been entered on the form (the requirement to complete claims on a payments basis may for example result in four rather than three terms’ payments being included, even though there has been no change in accounting policy).
Chapter 1: INTRODUCTION

Eligible payments

12. The claim for mandatory awards is governed by the Education (Mandatory Awards) Regulations. Students are eligible for a mandatory award only if:

(a) they are personally eligible; and
(b) attend an eligible course.

Eligible students

13. To be personally eligible a student must:

(a) be ordinarily resident in the British Isles for the three years before the start of the academic year in which the course begins (regulation 8); and
(b) have not, subject to exceptions, undertaken a previous course attracting a mandatory award (regulation 12); and
(c) have, subject to exceptions, made a valid application not later than 4 months after the date of the beginning of the course (regulation 11).

Payments by the LEA should be confined to eligible students who are the responsibility of the LEA i.e. those who are 'ordinarily resident' in the LEA's area (regulations 7-9). European students are entitled to a fees only award from the authority in whose area the institution is situated (regulation 7).

Eligible courses

14. In general, courses are eligible for mandatory awards if:

(a) they are full-time courses, including sandwich courses, or, in specified cases, part-time courses of initial teacher training (regulation 4); and
(b) they take place at a UK university, another publicly-funded college, or a specified private or NHS institution; and
(c) they lead to one of the following:
   - a first degree;
   - a diploma of Higher Education;
   - a Higher National Diploma;
   - a Postgraduate Certificate in Education (PGCE); or
   - a specified equivalent qualification.
   (Regulation 10)

15. Examples of courses which are ineligible for mandatory awards include:

(a) postgraduate courses (except postgraduate initial teacher training);
(b) part-time courses (except some initial teacher training courses); and
(c) courses of further education, correspondence courses or distance learning courses.
Calculation and payment of awards

16. Maintenance grants are calculated in accordance with regulation 18 and Schedules 2, 3 and 4. Auditors should note that European students are eligible only for a fees award, not a full award (paragraph 13 above). LEAs normally send grant cheques to the university or college for collection by the student.

17. Fees are to be paid in accordance with Schedule 1 to the Regulations. Regulation 24 sets out the method of payment. With some exceptions, fees are to be paid in 3 instalments on or before 10 December, 15 February, and 31 May, or within one month of receipt by the authority of a valid request for payment, whichever is the later. Auditors should report facts if fees have not been paid by these dates.

Discretionary awards

18. Where the conditions for a mandatory award are not met because either the student or course is ineligible the LEA may choose to give a discretionary award. Except for certain awards covered by regulation 25 (concerning students who have to repeat a period of study or who have studied previously with a mandatory award) discretionary awards are excluded from the claim.

Overpayments

19. ACL 3/94 sets out the treatment of overpayments for 1993-4 and later years. In summary, all payments made in respect of fraudulent applications and overpayments (referred to below as "overpayments") are not eligible for specific grant. However, with the exception of overpayments arising as a result of LEA administrative error (incorrectly calculated awards), DfEE delays abatement of specific grant in respect of overpayments until the following year. All overpayments are therefore excluded from line (a) and those arising other than as a result of LEA administrative error added back at (b). Specific grant in respect of non LEA error overpayments identified last year at line (b) on audited UG8/94 is abated now at line (c).

20. The entry at line (a) should:

   (i) be recorded on a payments basis, and gross of recovered overpayments;

   (ii) exclude 1995-6 overpayments identified up to the date of the CFO’s certificate, irrespective of their type; and

   (iii) include a deduction in respect of overpayments relating to earlier years, identified since the CFO’s certification of the 1994-5 claim.

21. The entry at line (b) should comprise:

   (i) 1995-6 overpayments identified up to the date of the CFO’s certificate excluding overpayments arising as a result of LEA administrative error; plus

   (ii) overpayments relating to earlier years identified since the CFO’s certification of the 1994-5 claim, excluding overpayments arising as a result of LEA administrative error.

22. Authorities must provide an explanation of a nil entry in line (b) by entering a ,b or c in the box provided as follows:

(a) the authority has not identified, since certification of last year’s claim, any 1995-6 overpayments or overpayments relating to earlier years;
(b) the authority's system automatically nets overpayments off the figure in line (a) but cannot identify the amount;

(c) the authority has chosen not to take advantage of the delay in abatement of grant; overpayments are excluded from line a but have not been added back at line (b).

The effect of a nil entry in line (b) is that specific grant in respect of overpayments is recovered immediately. Note that although there is no requirement to do so, some authorities have restricted the entry in line (b) to the amount of overpayments not yet recovered, and have therefore not taken full advantage of the year’s delay in abatement. Auditors should report facts in this case.

23. The entry at line (c) should agree to the entry in line (b) on the audited 1994-5 claim (form UG8/94).
Tests 1 to 9 are phrased in such a way that the answer "yes" or "not applicable" (N/A) indicates no problems, whereas the answer "no" identifies points which must be carried forward to checklist form AF62, item 6 for further consideration/action.

<table>
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<th></th>
<th>Yes/No/N/A</th>
<th>Audited by</th>
<th>Working paper ref</th>
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<tbody>
<tr>
<td>1.</td>
<td>Has form AF65 been completed and agreed with the directing officer? (paras 6 and 10)</td>
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<tr>
<td>2.</td>
<td>Does testing indicate that:</td>
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<tr>
<td></td>
<td>(a) the authority’s system for making mandatory awards is operating effectively (paras 6 and 7); and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) the authority is taking reasonable and appropriate steps to prevent and detect fraud? (paras 8 and 9)</td>
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<tr>
<td>3.</td>
<td>Have all relevant parts of the claim been completed and does the certificate bear the original signature of the Chief Financial Officer?</td>
<td></td>
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<tr>
<td>4.</td>
<td>Has all arithmetic on the claim been checked?</td>
<td></td>
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<tr>
<td>5.</td>
<td>Do entries on the claim and supporting working papers reconcile with the authority’s expenditure and income accounts or data for the claim period? (para 11)</td>
<td></td>
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<tr>
<td>6.</td>
<td>Has the claim been completed</td>
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<tr>
<td></td>
<td>(a) on a payments basis; and</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(b) on a consistent basis with the previous year; and</td>
<td></td>
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<td>(c) has the authority entered the correct number of terms for which payment has been made? (para 11)</td>
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<td>7.</td>
<td>Does testing of a sample of payments in line (a) confirm that all but only payments made in accordance with the Regulations are included:</td>
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<td></td>
<td>(a) are payments made only to eligible students attending eligible courses included? (paras 12 - 15)</td>
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<td>(b) have maintenance grants been calculated in accordance with the Regulations? (para 16)</td>
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### Chapter 1: INTRODUCTION

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<td>have tuition fees been paid at the correct rate in accordance with the Regulations, and by the specified dates? (para 17)</td>
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<td>(d)</td>
<td>are ineligible discretionary awards excluded? (para 18)</td>
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<td>have administrative expenses, which are not eligible for specific grant, been excluded?</td>
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<td>have all overpayments and fraudulent payments been excluded? (para 20)</td>
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<td>8. (a)</td>
<td>Has the entry at line (b) been correctly calculated (paras 21 and 22); or</td>
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<tr>
<td>(b)</td>
<td>has a nil entry in line b been explained? (para 22)</td>
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<td>Does the entry in line (c) agree to the entry in line (b) on the audited UG8/94? (para 23)</td>
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# Chapter 2

ELIGIBILITY AND ENTITLEMENT

## Contents

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## Appendices

2A: Key questions  
2B: Grant instruction A1 including index to GIs
Introduction

2.1 Authorities need to ensure that they secure their due entitlement to grant, and this obliges them to be aware of both the grants which are available and the rules governing entitlement for each grant scheme.

2.2 The number of grant schemes has grown in recent years, with a corresponding increase in the number of sources of grants. The traditional exchequer grants of central Whitehall departments are now supplemented by EU grants; of which most are administered separately for England and Wales and a significant number are made by agencies or the regional or area offices of grant paying bodies.

2.3 Simpler grant claims may be readily compiled from the authority’s annual accounts using the notes for completion which accompany claim forms. However, as grant paying bodies have tried to refine grants schemes so that they achieve particular aims, there has been a tendency for claims to be compiled from information which may not be readily available from the accounts. Hence, eligibility may be overlooked or underestimated. Moreover, the grant rules for the more complex schemes may call for clarification by reference to the UK primary and subordinate legislation underlying EU directives and regulations. Sometimes, in addition, guidance from grant paying bodies is so extensive as to achieve the status of a manual. In these circumstances, it has become increasingly difficult for authorities to be sure that they have obtained their full grant entitlement.

Eligibility

2.4 Authorities are generally aware of all grant schemes for which they may be eligible. The main problem is that when new schemes are introduced, a proportion of authorities overlook them with the result that claims are prepared late. Grants directed at particular needs, and hence claimable by relatively few authorities, are most often overlooked, especially when notification of a new scheme is sent to the spending department rather than the finance department.

2.5 There is no published comprehensive list of grants currently available to local authorities. Authorities need to have arrangements in place which ensure that they are aware of all schemes in order to submit claims in good time. These arrangements should provide for:

- all new schemes notified to a service department to be reported to a central co-ordinator;
- information concerning any scheme to be forwarded to the person responsible for
applying for the grant;

• legislation to be reviewed on a continuing basis to identify possible new grants.

These arrangements should ideally be set down in writing to ensure that responsibilities are clear.

2.6 At the end of each financial year the Audit Commission advises its auditors which grants made available during the year need audit certification. Auditors use this list to check that no grants have been overlooked and often provide authorities with a copy or extract from it for their own use. The list forms a part of GI A1 (see appendix 2B) and is updated monthly. Three points should be made:

• the list covers only those claims requiring audit certification and whilst this is likely to cover the majority of claims, it is not exhaustive;

• the list should only be used as a final backup checklist because it is compiled at the end of the financial year; interim claim stages may have already been missed;

• although the list attempts to cover all schemes requiring audit certification, schemes occasionally come to the Commission’s attention only when a claim is submitted to an auditor for certification.

2.7 Traditionally, budgetary control has been and continues to be one of the key elements in ensuring that grants for which an authority may be eligible are claimed and that entitlement is not underclaimed. Finance officers should be able to ensure that all expected grant income is included in the budget by:

• drawing up a budget in consultation with spending departments;

• taking account of inter authority comparisons; and

• taking account of grant legislation and regulations.

2.8 Variances from the budget will highlight any oversights. There are, however, circumstances in which budgetary control may not suffice to identify omissions or underclaims, for example:

• where the budget compiler is unaware of a grant scheme;

• where grant entitlement is uncertain and possible grant income is omitted or understated as a precautionary budget measure;
• where grants are introduced retrospectively;

• where the authority fails to expand a service to take advantage of the availability of 100% grant, the failure not being highlighted if comparison is made with a net budget of nil;

• where investigation of shortfalls of grant income against budget is defective eg where the budget controller accepts explanations without corroboration or simply attributes variations to miscodings.

As part of the documented system defining roles and responsibilities, these areas may be subject to review by the grants co-ordinator.

**Entitlement**

2.9 Concerns that authorities may not always claim their due entitlement to grant are usually attributable to:

• complexity or lack of clarity in the grant rules, sometimes highlighted when authorities and auditors differ in their interpretations;

• information not being readily obtainable from the accounting system; and

• uncertainty or lack of knowledge as to what may be claimable. For example, a proportion of audit fees is claimable on rent officer service, highways agency, probation, civil defence and magistrates' courts claims.

2.10 Each authority needs to establish at an early stage the requirements of each scheme so that persons incurring expenditure can ensure that it falls within the grant conditions, that proper records can be maintained and the authority is able to secure maximum benefit from the grant offered. The compiler of a claim needs to be satisfied that claimed expenditure falls within the conditions. It is particularly important that changes in rules are identified both by those incurring expenditure and the compiler of a claim. Careful early reading of the relevant documentation will help to guarantee a full understanding of the conditions.

2.11 In establishing proper records, authorities should distinguish between those grants whose entries derive from a financial system, such as benefits and non-domestic rates, and those which are project based. For system based grants, especially when they are new or subject to substantial change, it is important that authorities ensure that:
• the coding structure is adapted to produce the entries required on the claim form;

• there are proper internal controls over the operation of the system;

• there is a clear trail from the total figures produced by the system to the detailed underlying documentation.

Prompt action at the outset of a scheme can obviate the need for extensive manual adjustments and audit concerns.

2.12 Where uncertainty as to entitlement exists, authorities should obtain the view of the grant paying body and may also obtain an informal view from other authorities or the auditor who will ultimately have to certify the claim. In turning to the grant paying body for clarification, the authority may at least identify what the intention of a rule was, even if it is not clearly expressed; and except where the advice is merely to point the enquirer to the relevant rule dealing with the problem, it would be prudent to secure written confirmation if significant amounts of grant depends on that advice.

2.13 Care is needed to ensure that an approach is made to the appropriate contact point. In the case of those schemes administered from regional offices, inadequate guidance from a central policy office can result in advice being given which is misleading and inconsistent between regional offices. If an issue is likely to affect other authorities, the authority should keep its local authority association informed to enable a formal approach to be made, with a view to ensuring that grant rules are clarified to secure equal treatment of all claimants.

2.14 The situation may sometimes arise where an authority is unable to obtain a response to its queries from the grant paying body. Faced with an unresolved uncertainty, an authority could include the doubtful item and affix a note to its claim drawing attention to the uncertainty for the benefit of both the paying body and the auditor, or could discuss the issue with its auditor prior to finalising its claim. Either option represents a proper attempt by the authority to claim within the rules.

2.15 The role of the Audit Commission’s grant instructions (GIs) in this context is sometimes misunderstood. GIs are drafted by the commission based on the grant conditions and hence follow and cannot add to or overrule those conditions. Because GIs are agreed by the grant paying body before publication, they can be assumed to reflect that body’s interpretation of its grant rules. GIs are not a substitute for the paying body’s grant conditions but concentrate on key conditions and those which have caused difficulty or are thought likely to do so. Auditors can make copies of relevant GIs available to authorities on request, usually through claims co-ordinators. Claims compilers have sometimes found GIs useful in resolving uncertainties.
Grant Schemes

2.16 What can authorities do to secure clarity in grant schemes? The sources of grant schemes are decisions by the British or European parliaments to support certain activities from exchequer or European funds. The extent to which the detail of the schemes is embodied in the primary legislation varies. Frequently the detail is left to the executive of Brussels, Whitehall or their agencies. Invariably, however, there are two opportunities for authorities to influence a grant scheme, that is, at parliamentary and at executive stages.

2.17 Authorities are often in the best position to identify the problems which proposals for grants may generate and they may be able to secure modification if these are highlighted at the parliamentary stage. Ideally, such an approach should be made jointly with other authorities or through the local authority associations.

2.18 At executive stage, the details of a scheme will be drawn up by the grant paying body, which may provide the opportunity to comment on draft proposals. Where local authorities are the sole or one of the main bodies eligible for entitlement under a grant scheme, it is customary for the grant paying body to consult local authorities and/or the relevant local authority associations. This stage presents the greatest opportunity to simplify the grant rules and information requirements. Authorities should therefore ensure that where a response is required, appropriate consideration is given to its preparation.

2.19 When a grant scheme continues to be troublesome, authorities should seek improvements through the grant paying body. If difficulties are not drawn to their attention, paying bodies will naturally believe that their schemes are problem free.
### Key Questions

*Consider action whenever the answer is NO*

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<th>Comments/action required</th>
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Does the authority have in place arrangements which ensure it is aware of all grant schemes available to it?

Does the authority have properly documented arrangements for ensuring that information about new schemes is notified to the grant co-ordinator?

Does the authority use the Audit Commission's grant instruction A1 to help identify relevant grants?

Are budgetary control systems robust enough to identify a shortfall in grant income?

Does the authority ensure that the effects of new legislation and correspondence from paying departments are identified and made clear to compilers?

Does the authority take prompt action to reconsider the planned expenditure and records to be maintained when legislation or regulations change?

Are arrangements in place for early reading of relevant notes for completion of claims?

Does the authority seek prompt clarification from grant paying bodies on problem areas or entitlement?

Does the authority make appropriate arrangements to respond at consultation stages to proposals for new grants?
Appendix 2B

Grant Instruction AI
including Index to GIs
INDEX TO GIs (PAGES 1 TO 6)
STRAGGLERS (PAGES 7 ONWARDS)

Queries on this instruction should be addressed to the Audit Support Grants Team at the Commission's Bristol Office (see Notes to this GI page 6)

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**Statement**


Barnsley, Birmingham, Bristol, Cambridge, Carrick, Chesterfield, Haringey, High Peak, Knowsley, Neath Port Talbot, Portsmouth, Ribble Valley, S Tyneside, TR102, 135, 426, 530, ? - ? ? - 

TRL9, 10

TR102A, 166A, 530, TRL9A

**Invoice**


**GSRAS 96-04(W)**

Notice

+ ? ?? ? ? +

**HEC 96-04(W)**

Audited return


**Miras 14**

GSRAS 96-04(W)

Notice


**LACLT2**

Statement


Barnsley, Birmingham, Bristol, Cambridge, Carrick, Chesterfield, Haringey, High Peak, Knowsley, Neath Port Talbot, Portsmouth, Ribble Valley, S Tyneside, TR102, 135, 426, 530, ? - ? ? - 

TRL9, 10

TR102A, 166A, 530, TRL9A

**Invoice**


**GSRAS 96-04(W)**

Notice

+ ? ?? ? ? +

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Audited return

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Statement of grant expenditure

Statement of grant expenditure
Lancashire, Merthyr Tydfil, Merton, Huntingdonshire, Sedgefield

CCTV

Special Grant report (No26) claim form
Manchester, Tower Hamlets, Greater Manchester Police

FED 0867A

Letter

Accounts

MAG/CUREX1/CAPEX1A&B

LNCCH1

NNDR 3

S1, S2

certain new trusts

DOE 12419, PG(W)2

Allerdale, Birmingham, Daventry, Horsham, Neath Port Talbot, Newcastle T, Newham, Reigate, Salford, Wigan

POL/GRANT1, 1(X), 2

some police authorities

PROB/CUREX1/CAPEX1, LNCCH1

PBH-AS

RC1, 2(Outturn)

DP186

S13LA

CHA2

Annual voucher

TSP(AUDIT)/96, TSP3, (MTD)3, (COMC)3, ACPC3

MISGAUD1

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Unnumbered form

Statement

Camden

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- **Flexible community care and people with physical and sensory disabilities**
- **Guardians ad litem**
- **Support for children and family services**
- **Persons from abroad childrens grant**
- **Adult asylum seekers accommodation Grant**
- **Superannuation pre 74 LA health staff**
- **Superannuation pre 78 motor tax staff**
- **Pension costs for former RCU staff**
- **Fuel duty rebate**
- **Transport capital s56/1968**

**Notes:**
- **Com Care Grants 5**
- **GALRC 1**
- **CFS16**
- **PFAG (AUDIT)**

**Locations:**
- ASAG (Audit)
- AW205
- CLF353

**Invoices:**
- Bedfordshire, Bradford, Cheshire, Derbyshire, Devon, Durham, Essex, Kent, Somerset, Staffordshire, Shropshire, Warwickshire
- PSV 311

**Unnumbered forms:**
- Leicestershire, Nottinghamshire, S Yorkshire PTE, W Midlands PTE
Chapter 2: ELIGIBILITY AND ENTITLEMENT

Notes to index to GIs

Note 1 YEAR The financial year to which the return and GI relate. If left blank, the return and GI are not year specific.

Note 2 ISSUE DATE The month and the year the latest version of the GI was issued.
   R Where a GI is revised during the year the issue date of the revised GI is given and preceded by an R. GIs may occasionally be revised by manual updating through the GI covering note and this is indicated by / in the monthly index to GI covering notes.
   L Where a GI distribution is limited to auditors of authorities listed in the client column the issue date of the GI is followed by an L.
   ** Indicates GI not yet issued.

Note 3 A Certifying auditor. Certification is either restricted to the auditor appointed by the Commission for that client (AC) or the client may choose the auditor certifying the return (Ch). Para 8 of A2 refers.
   S The source from which the auditor receives the return for certification ie. from either the client (C) or department (D).

Note 4 DEPT The department requiring certification of the return. Further details are given in the appropriate GI.

Note 5 DUE
   (a) the pre-audit deadline (the date by which the return is to be submitted to the auditor); and
   (b) the audit deadline (the date by which the audited return is to reach the department).

   Deadlines are usually shown as the number of months from the end of the period ended 31 March to which the return relates. For example, for a 1996-7 return an entry of 6 and 9 indicates a pre audit deadline of the end of September 1997 and audit deadline of end of December 1997. A deadline of -6 for a 1997-8 return would be the end of September 1997.
   R If followed by 'R' deadlines are shown as the number of months from date of receipt by auditor.
   C If followed by 'C' deadlines are shown as the number of months from date of completion of the scheme or the claim period ended if other than 31 March.
   ... Information awaited.
   - Deadline not specified.
   / Where English and Welsh deadlines differ these are shown separately.

Note 6 FORM Number of form or type of document to be certified.
   ... Information awaited.

Note 7 CLIENT
   EC English county
   ED English district
   MD Metropolitan district
   LB London borough
   EU English unitary
   WU Welsh unitary

   + Return required from all clients in class
   ? Return required from some clients in class
   - Nil or not applicable

Where a return applies only to a limited number of authorities these are listed and the GI distributed solely to auditors of the authorities concerned.
Chapter 3

PLANNING AND CONTROL

Contents

Introduction 1 - 2
Planning 3 - 10
Control 11 - 17

Appendix

3A: Key questions
Introduction

3.1 As with any other local authority task, planning is crucial. It is important that there are plans in place to meet deadlines for submission of interim and final grant claims and returns. It is likely that payments on account will be deferred or withdrawn if deadlines are missed; for some claims, large sums of money are involved.

3.2 Planning alone will not suffice and there must also be a mechanism to monitor progress against that plan.

Planning

3.3 *Regular as Clockwork* (published jointly by CIPFA and the Audit Commission) drew attention to the need to integrate grant claims and returns with the closure of accounts programme. The fieldwork for this study showed that few authorities make a specific reference to compilation of grant claims and returns in the closure programme.

3.4 It is clearly the authority’s responsibility to plan grants work to meet the relevant deadlines. This is especially important on submission of interim claims which produce a payment on account. There are usually deadlines which, if not met, will mean a cash flow loss. On final grant claims, it is also important to meet deadlines because:

- there may be a balance outstanding which will only be paid on receipt of an audited claim; and

- there may be penalties or, more seriously, withdrawal of payments on account, or recovery of amounts previously advanced.

3.5 Closure of accounts programmes should always refer to the need to have grant claims completed by deadlines; they should also emphasise the penalties of not meeting deadlines. The risk of penalties should also be made clear to compilers and service managers.

3.6 Grant claims are sometimes left until after closure and in consequence preparation may be rushed and the potential for error increased. Whilst it may be not be practical to make specific reference to every claim and return in the closure programme, there should be a general reference. This could be:

> Each finance officer is responsible for ensuring that relevant grant claims are submitted in accordance with deadlines set down by the grant paying bodies and that the claims comply with the body’s rules on entitlement.
It may help to include such requirements as performance targets for individual finance officers.

3.7 Planning includes discussion of the deadlines with external audit. Authorities can take the initiative on this. Authorities should discuss with the external auditor the feasibility of co-ordinating overall time targets for dealing with claims. Provided that claims submitted are complete and accurate, and backed by adequate working papers, agreed deadlines will be more easily kept. Chapter 7 discusses liaison arrangements with external audit.

3.8 Local authorities tend to use as target dates the deadlines set by the paying department for submission of a final claim to both the department and to the auditor. For most claims that is 30 September. Usually the audited claim has to be submitted to the paying department by 31 December. Most authorities see 30 September as a target rather than a deadline and likewise external auditors tend to regard 31 December in the same way. It might be more comfortable for all concerned if submission dates were brought forward e.g. complete all final grant claims and submit them to the auditor by 31 August, submit audited claim to paying department by 30 November.

3.9 Earlier preparation of claims could bring benefits. Some paying departments may agree to another payment on account if there is a large amount outstanding and if the pre-audit final claim is submitted earlier there could be a cash flow advantage. If the claim is submitted earlier to the auditor, there is a chance that it will be certified earlier and, in principle, the paying department will pay any balance outstanding earlier – again a cash flow advantage.

3.10 Examples of further benefits from early submission of claims are:

- that an interim settlement is made on non-domestic rates on receipt of the pre-audit return;

- 80% of the balance due on HRA subsidy is paid on receipt of the pre-audit claim (the balance is paid on receipt of the final provided it is received by the due date, has satisfied the validation check and any qualifications on it have been resolved);

- no instalments are paid in respect of defective dwelling grants, the grant is paid on receipt of the audited claim.

Control

3.11 To monitor progress in meeting the plan some authorities have appointed a person to
co-ordinate grants work, one of the recommendations of the Audit Commission working party. The responsibilities of such a person will vary from authority to authority because of the different circumstances pertaining at each authority, but the fieldwork showed that he or she is broadly responsible for:

- ascertaining deadlines for submission of grants and returns and setting up a grants and returns register;
- ensuring that all staff involved in grants and returns compilation are aware of their responsibilities, including deadlines and the consequences of not meeting them;
- ensuring as far as possible that the authority has completed its grant claims properly, through review of work done by other staff;
- reviewing the register to monitor progress against timetable and follow-up missed deadlines or other problems;
- liaising with external audit, including obtaining grant instructions, agreeing timetable and discussing problems;
- liaison with internal audit where appropriate.

3.12 It is important for the co-ordinators to have the appropriate resources and status within the authority to achieve these tasks. In larger authorities it may be appropriate to nominate individuals within service departments who would be responsible for all claims within their department.

3.13 Many authorities have set up a register, usually in co-operation with the external auditor. Such a register more often than not is on a spreadsheet and records only final grants and returns which require an audit certificate. Some authorities are conscious of the need to monitor cash flow on grants and have set up registers which meet all needs ie set out deadlines for submission and audit and allow calculation of cash flow losses (if any). An example is shown overleaf.

3.14 In some cases grant paying departments require, as a condition of grant, that authorities paying money to voluntary and other organisations as agents obtain from such organisations a statement, possibly certified by their auditors, that expenditure has been incurred in accordance with the purpose of the grant. Where this is the case, authorities need to set up the appropriate arrangements as part of their planning process.

3.15 Monitoring of progress depends on the role of the co-ordinator and in some instances is only done at the instigation of the external auditor. One of the fieldwork authorities
### CHESHIRE COUNTY COUNCIL
### REGISTER OF INCOME FROM SPECIFIC, SPECIAL AND SUPPLEMENTARY GRANTS

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**Total Annual Grants:** 123,161
is setting up a database which can be interrogated regularly to identify delays.

3.16 Few authorities have any management information on grant claims and returns. Information is often not readily available for current year and previous years on:

- grant claims made, interim amounts claimed and received;
- cost and time spent by the authority staff on each grant claim;
- cost and time spent by the auditor on each grant claim and overall;
- performance in meeting deadlines; and
- numbers and amounts and reasons for adjustments made by auditors.

3.17 Such information may identify particular issues which need to be addressed at the authority level rather than on a specific grant or return. For example, claims preparation time may be low but the number of audit adjustments and the audit costs high, suggesting that there may be a need for improvements in standards of claim preparation and supervision.
## Key Questions

*Consider action whenever the answer is NO*

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<th>Answer</th>
<th>Comments/action required</th>
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<td>Does the authority set deadlines for submission of claims other than those set out by paying departments?</td>
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<td>Has the authority calculated the cash flow benefits of earlier submission?</td>
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<td>Has a grants co-ordinator been appointed?</td>
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<tr>
<td>Do the co-ordinator's responsibilities match the Audit Commission's recommendations?</td>
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<td>Has a grants register been drawn up?</td>
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<td>Is the grants register used as a monitoring tool?</td>
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<td>Does the authority know how much time is spent on grants and how much it costs?</td>
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Chapter 4

DOCUMENTATION

Contents

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<th>Paragraph</th>
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<td>Documentation</td>
<td>3 - 11</td>
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<tr>
<td>Procedure notes</td>
<td>12 - 14</td>
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Appendices

4A: Key questions
4B: Example working papers
Introduction

4.1 The Accounts and Audit Regulations 1996 require the chief finance officer to ensure that the accounts and supporting records are maintained in accordance with proper practices. These records include:

"...a record of income and expenditure of the body in relation to claims made, or to be made, by them for contribution, grant or subsidy from any Minister of the Crown, a body to whom such a Minister may pay sums out of moneys provided by Parliament or a Community institution."

There is, therefore, for the first time, a statutory requirement to keep grant claim records in accordance with proper practices.

4.2 In the past there has been a view that documentation was prepared primarily for the external auditors and they are certainly the main users of it. Documentation is also important for review by the chief finance officer in responding to departmental queries and to assist preparers of grant claims in the next year and in future years.

Documentation

4.3 Figures contained in a claim must be supported by all necessary working papers arranged in a logical way. As part of this process, minimum standards of format, content and clarity of documentation should be set. The production of working papers should be monitored and their content reviewed. This could be a role for the grants co-ordinator.

4.4 Authorities need to establish standards for working papers. This might apply not just to grant claims but to working papers for all tasks. Some authorities have issued instructions to compilers on grants claims which include paragraphs on working papers. These are usually based on the Audit Commission guidance shown overleaf. Authorities which assess themselves against the Audit Commission guidance, which should be regarded as a minimum, will find that the burden at year end will be lightened. A grants co-ordinator could carry out such a review to identify good practice for wider dissemination.
Claims working papers should include:

- the date of preparation and the name of officer preparing the working papers;
- a description of relevant internal controls and a note on the extent of internal audit cover, with cross reference to internal audit files;
- the date of submission of the pre-audit claim to department/auditor;
- copies of original approvals, subsequent variations and any other correspondence with departments;
- a comparison of expenditure with approvals;
- a reconciliation of income and expenditure figures in the claim to working papers and account codes;
- details of payment made on account, supported by relevant advice notes from paying department, where applicable;
- a reconciliation of balance on each claim with the accounts at the date of the chief finance officer's certificate;
- an explanation of significant variances from the previous year;
- details of large journal transfers, with voucher references;
- a note of the basis on which expenditure has been apportioned;
- a reference to the appropriate grant claim cells;
- a reference to the system or printout from which the grants information is taken;
- evidence that contracts were let in accordance with standing orders where the claim includes charges for work carried out by a third party under contract; and
- evidence of independent audit of expenditure included in the claim that is incurred by another body.

4.5 The most important features of the above guidance are:

- the reconciliation of income and expenditure figures in the claim to working papers and account codes;
- the reconciliation of the balance on each claim with the accounts; and
- evidence in the form of approvals, vouchers, invoices or an indication of where these documents may be found.
4.6 A reader or reviewer of the documentation should be able to trace any entry on the grant claim form to the underlying evidence which supports it. Example working papers are attached as appendix B.

4.7 There is no standard period for retention of documents relating to grant claims. Some schemes specify retention periods, in other cases authorities should follow their normal practice for the retention of accounting records and documents, usually a period of six years.

4.8 The external auditor may be able to assist in this process in a number of ways:

- training on the types of working papers required and the reasons for them;
- provision by the auditor of a detailed list of working papers required for each claim;
- an assessment by the auditor of the working papers on a claim by claim basis against the Audit Commission guidance; and
- provision of relevant GIs.

4.9 There are many cases where, within an authority, a particular finance officer produces good working papers. Asking that person to carry out training of others could be a constructive and cost effective internal exercise.

4.10 Some problems may be encountered where the finance function, and thus the compilation of claims, has been contracted out. If the specification has not made clear that good working papers have to be compiled, then the authority may be unable to pass on any extra costs to the contractor. It is important that standards for working papers are included in any contract specification.

4.11 The use of a standard pre-printed working paper, as noted at one of the fieldwork authorities (see overleaf), encourages a structured and disciplined approach to documentation, both for grant claims and other accounting records.

**Procedure Notes**

4.12 Many authorities have procedure notes for the overall close down process but few have such notes on how a particular grant claim should be compiled. Because it is usual for compilers of grant claims to have relevant accounting experience, there has been little pressure to produce procedure notes for grants and returns. However, there are
instances where other staff may be responsible for compilation and are not aware of how best to deal with a claim.

4.13 The arrangements in each authority will differ but the important point remains that the claims should be compiled by staff with the right knowledge and training so that the authority can ensure that it is claiming all it is entitled to under the rules. Procedure notes would aid this, although there is a cost in preparing such notes and keeping them up to date. The grants claim co-ordinator could be given responsibility for ensuring that processes are documented and that the notes are kept up to date.

4.14 Staff generally rely on previous experience, the availability of the person who did the claim before, or the working papers for earlier years. Whilst this approach may be acceptable for those with relevant practical experience, other staff need more guidance.
# Key Questions

*Consider action whenever the answer is NO*

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<td>– reconciliation with accounts?</td>
<td></td>
</tr>
<tr>
<td>– provision of appropriate evidence for all entries on claim form?</td>
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<tr>
<td>– explanation of reasons for significant changes affecting the claim?</td>
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</tr>
<tr>
<td>Is training provided for staff on compilation of good working papers?</td>
<td></td>
</tr>
<tr>
<td>Are external auditors involved in such training?</td>
<td></td>
</tr>
<tr>
<td>Is standard stationery used for grant claim documentation?</td>
<td></td>
</tr>
<tr>
<td>Where the compilation of grant claims is contracted out as part of the finance function, does the contract specification set out standards to be met?</td>
<td></td>
</tr>
<tr>
<td>Have procedure notes on compilation of grant claims been drawn up?</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 4B

Working Papers Example in Manuscript
Prepared by: CCG

(Audit) Community Charge Grant

Claim Form Ref

A. Claims Payments 5310063-96 x
B. Loss Refunds (73376-13) x

C. LESE Court Costs Paid (Included in Gross Payments) (42842-18) x

D. Benefits £691703 £ (44495) £

£5193845-65

£647208-00

£4546635-00

£724898-01

£6565952-00

£250-22-0

£3673700-0

PAID LAST CLAID £3656551-0

DUE 20% £17,149

X = Agreed to Grant Claim

φ = Agreed to Previous Years Audited Grant Claim

63

Signed 13/4/95

Agreed to Computer Print Outs
Chapter 5
SUPERVISION
AND REVIEW

Contents

Introduction ........................................ 1
Supervision ........................................ 2 - 8
Review ................................................. 9 - 14

Appendix

5A: Key questions
Introduction

5.1 Once eligibility is established, it is important that there are mechanisms to ensure that:

- compilers are properly supervised; and
- grants and returns are properly reviewed before submission to the paying body and the auditor.

Supervision

5.2 The level of supervision will depend on a number of factors:

- whether the claim is complex;
- whether the compiler has relevant accounting experience;
- whether the compiler has prepared the claim before;
- whether the claim is a new one; and
- whether the chief financial officer considers this task an important one.

5.3 At most authorities staff compiling claims are qualified accountants or other staff supervised by those accountants. It is, therefore, not unreasonable to expect that claims will be properly and accurately compiled. However, Audit Commission statistics show that a large number of claims still need adjustments at audit.

5.4 It appears that because most staff are qualified accountants there is little attention given to training. Most staff dealing with grant claims do not receive formal training in compilation or on interpretation of legislation and government regulations. They are expected to 'pick it up as they go along'. This is unsatisfactory. Some authorities have, together with the external auditor, set up courses on grants compilation which have proved valuable.

5.5 Chapter 3 discusses the supervisory role of a grants co-ordinator, namely:

- identifying responsible accountants or other staff and informing them of deadlines; and
- monitoring progress against deadlines, pursuing reasons for missed deadlines and
ensuring that both paying department and auditor have been kept informed of problems.

5.6 Larger local authorities are more likely to have appointed a grants co-ordinator because of the larger number of claims and the devolved responsibility for their completion. A small district council may only have four or five claims to deal with and it is probably just as effective to leave the tasks set out above to the individual accountants. However, even at a small district council there should be some means of ensuring good performance by those individual accountants.

5.7 Where a co-ordinator has been appointed, the post should be at a sufficiently senior level to be able to exercise authority over compilers. Far from acting as a mere post box, obtaining and passing on GIs and deadline dates to compilers (or providing external auditors with information about which individuals are responsible for what claim), co-ordinators need to be pro-active. They should help plan the claims process, monitor progress against timetable, make sure reviews take place, check documentation, help internal audit with their plan and follow-up audit recommendations. In short, chasing submission of claims is not the job of the external auditor.

5.8 An example of one pro-active authority’s arrangements is shown opposite.
INTRODUCTION

A memorandum has been received from District Audit which confirms the existing arrangements for the co-ordination, processing and submission of grant claims that are submitted by Leeds City Council and also reports on matters arising from the audit of grant claims 1993/4. The major observations highlighted by District Audit are addressed below.

CLAIMS TIMETABLE

A schedule of expected grant claims requiring audit certification for 1994/95, together with a timetable for submission is attached at Appendix A. Further details in relation to new claims should be notified to the grant claims coordinator as soon as information is available.

It is imperative that all grant claims for 1994/95 are passed directly to Control Group by the stipulated date as shown on the claims timetable in order to guarantee audit certification by the government deadline and avoid incurring financial penalties. Any potential delays or unexpected claims should be notified as soon as possible to the grant claims coordinator who will liaise as necessary with the auditors.

During 1993/4 the majority of grant claims were received by the agreed submission date.

GRANT INSTRUCTIONS / AUDIT TESTS

The Audit Commission issues Grant Instructions (Gl) which prescribe the minimum level of testing required prior to the certification of a grant claim. Copies of grant instructions are available on request from the grant claims coordinator and these will ensure that officer's compiling claims are aware of audit requirements.

Pre-audit co-operation from the compiler of the claim could reduce actual audit time significantly and hence the pro-forma at Appendix B must be completed and submitted with each grant claim to give assurance to the certifying officers that necessary audit checks have been carried out.
Steps taken to improve the quality of working papers during 1993/94 have been noted however in some instances working papers could have been improved and this resulted in additional audit effort to resolve issues.

It is important to maintain clear working papers to support grant claims to ensure certification work is completed within deadlines and at minimum cost. To provide officer’s with guidance on requirements for working papers Appendix C is a list of suggested inclusions.

1993/94 FEEDBACK

Please find attached at Appendix D, where appropriate, matters arising from the 1993/94 audit of grants which should highlight areas for improvement in the 1994/95 audits.

It has been agreed that with regards to Highways grant claims which are submitted directly by the Authority to the Department of Transport, Highways should notify the grant claims co-ordinator to give details of the claims which have been submitted directly.

May I take this opportunity to remind compilers of claims that before an original claim is signed by the Director Of Finance a front header sheet Appendix E must be fully completed and that TWO copies of the claim (one with original D of F signature and one photocopy) be handed to Control Group by the due date.

Your co-operation in achieving these recommendations is of extreme importance and should you have any queries regarding the above please do not hesitate to contact me.

P GLOVER
CHIEF ACCOUNTANT (EXCHEQUER AND AUDIT)
Review

5.9 Linked to supervision is pre-audit review. The purpose of such a review is to ensure that:

- the claim appears reasonable;
- all relevant parts of the claim have been completed;
- all figures are supported by working papers; and
- there is adequate explanation for changes from the previous year.

This review is important as part of the internal control procedures of the authority and should be carried out by a named individual with authority to seek explanations from compilers or service departments.

5.10 When authorities state that claims are reviewed before submission to paying departments and the external auditor they need to ensure that the process is thorough. Arithmetical and clerical errors should be identified and eliminated before submission. Full and complete documentation should back up the claim together with an explanation of major changes.

5.11 At most authorities the claims are signed by the chief finance officer. The chief finance officer should not sign a claim without being assured that the claim is broadly correct and is as expected. The chief finance officer should not sign and certificate unless he or she is satisfied that a validation check has been completed and has evidence that this is the case.

5.12 A number of authorities have set up more formal review processes. At one authority the chief finance officer takes a close interest by calling for all working papers on grants before signing; a detailed review will be done only on a sample but this approach should keep staff on their toes and emphasise that grants are an important area. Examples of pre-audit review forms and documentation are shown overleaf.
# Chapter 5: SUPERVISION AND REVIEW

## GRANT CLAIM CHECKLIST - FINANCIAL YEAR 19 /19

### SECTION A - GENERAL INFORMATION

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Grant Claim: ____________________________</td>
</tr>
<tr>
<td>2</td>
<td>Claim Ref No: __________________________</td>
</tr>
<tr>
<td>3</td>
<td>Sponsoring Government Dept/Agency: __________</td>
</tr>
<tr>
<td>4</td>
<td>Responsible Officers - Management Accountant: __________</td>
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<td></td>
<td>- Budget Holder (if appropriate): __________</td>
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<td>5</td>
<td>File Reference/Location: ______________________</td>
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### SECTION B - ALL CLAIMS

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<table>
<thead>
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<tbody>
<tr>
<td>6</td>
<td>Period of Claim: __________________________</td>
</tr>
<tr>
<td>7</td>
<td>Value of Claim: £ __________</td>
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<tr>
<td>8</td>
<td>Deadline for Completion: __________________</td>
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<td>9</td>
<td>Extended Deadline: ______________________</td>
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<table>
<thead>
<tr>
<th>Name</th>
<th>Date</th>
</tr>
</thead>
<tbody>
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</table>

10 Compiled by - Technical Officer:
   - Accountancy Staff:

11 Checked by:
   - Additions/Calculations:
   - Reconciliation with PALS:
   - Agreement to Working Papers:
   - Compliance with Validation Checklist:

12 Management Accountant Review:
   Particular emphasis on working papers re:
   - Compliance with GI's:
   - Presentation
   - Index
   - Copy of Approvals
   - Headings/Content
   - Reference to Claim (Line Nos)
   - Dated/Referenced
   - Sources of Information

13 Submitted for Signature:

14 Signed by/on behalf of Treasurer:

15 Claim Dispatched:

16 Reason for Late Completion (when appropriate):
SECTION C - CLAIMS RECORD

17 Claims to Date:

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<th>Amount Claimed/Due</th>
<th>Amount Received</th>
<th>Date Claimed/Due</th>
<th>Date Received</th>
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<tr>
<td></td>
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SECTION D - FINAL CLAIMS SUBJECT TO DISTRICT AUDIT

18 Relevant Dates:

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<tr>
<th>Deadline for submission of Audited claim to Government Department</th>
<th>Claim submitted to District Audit</th>
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<td>District Audit Certification</td>
<td>Copy returned</td>
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19 Issues Raised by District Audit:

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<th>Cost - £</th>
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20 Time Spent on claim by District Audit - Estimator
- Actual:

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<th>Hours</th>
<th>Cost - £</th>
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<tr>
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</table>

SECTION E - OTHER FINAL CLAIMS

21 Issues raised by Sponsoring Agency:

This checklist should be completed for each claim submitted and following the audit of final claims. One copy should be retained on file and one copy forwarded to the Grants Co-Ordinator.
## LEEDS CITY COUNCIL
### HOUSING BENEFIT & COUNCIL TAX BENEFIT FINAL CLAIM 1994/95
#### COMPARISON TO THE 1993/94 FINAL CLAIM AND 1994/95 MID-YEAR ESTIMATE

<table>
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<tr>
<th></th>
<th>1994/95 FINAL CLAIM</th>
<th>1993/94 FINAL CLAIM</th>
<th>VARIATIONS</th>
<th>COMMENTS</th>
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<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
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<td>1994/95</td>
<td>1994/95</td>
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</tr>
<tr>
<td></td>
<td>£</td>
<td>£</td>
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<td>NON-HRA RENT REBATE</td>
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<td>380,852</td>
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<td>1994/95 - Cell 12</td>
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<td>27,768</td>
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<td>1994/95 - Cell 13</td>
<td>25,853,210</td>
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<td>26,091,850</td>
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<td>ADMINISTRATION COSTS SUBSIDY</td>
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<tr>
<td>1994/95 - Cell 14</td>
<td>2,297,189</td>
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<td>WBS SUBSIDY</td>
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<td>2,297,189</td>
<td>2,310,556</td>
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<td>GRAND TOTAL</td>
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<td>72,029,842</td>
<td>80,323,261</td>
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<td>TOTAL RECEIVED ON ACCOUNT</td>
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<td>REDUCTION RE TIME-EXPIRED CHEQUES</td>
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<th>VARIATIONS</th>
<th>COMMENTS</th>
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<td>£</td>
<td>£</td>
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<td>(see note)</td>
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<td>COUNCIL TAX BENEFIT SUBSIDY</td>
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<td>2,250,516</td>
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**COMMENTS**

161 properties since reclassified as HRA properties. Explanation previously reported to the DSS.

Initial estimate return 1994/95 assumed an average increase of 20%, based upon continuing trends. Similar caseload figures, therefore, average increase less than the 20% assumed.

2.5% variation.

Notified maximum amounts.

Developed only towards the end of 1993/94. Therefore, the benefit appears from 1994/95.

As above.

Final claims figure here amended to include time-expired cheques credit. The mid-year estimate grant is calculated as 94.5% of forecast expenditure. However, actual grant is claimed at varying rates from nil to 95%.

Supplementary allocation.
5.13 The external auditor will carry out analytical review on a grant claim to compare it with the previous year and seek explanations for major variances. This is an area where authorities could improve their working papers. The compiler should, as part of the process, produce such a comparison with explanations; such an exercise may have already been done as part of reporting on the end of year accounts. It would not then be too formidable a task to include it in grant claim working papers. An example of such a comparison is shown opposite.

5.14 Any review process should also take account of points raised at previous audits so that the same mistakes are not repeated. The example at paragraph 5.8 shows that this authority is aware of the need to learn from previous audits.
Key Questions

Consider action whenever the answer is NO

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Comments/action required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are staff at the appropriate level involved in the compilation of grant claims?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are they trained, particularly those staff without relevant accounting experience?</td>
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<td></td>
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<tr>
<td>Is the grants co-ordinator involved?</td>
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</tr>
<tr>
<td>Does the authority ensure that claims submitted are complete and accurate before submission?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is there a formal review process?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is the review process evidenced?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do compilers include an analytical review within the working papers?</td>
<td></td>
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<tr>
<td>Is there a formal process for ensuring action has been taken on points raised at previous audits before submission of the current claim?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 6
INTERNAL AUDIT

Contents

Introduction 1 - 4
Reliance on internal audit work 5 - 7
Partial involvement 8 - 10
Full involvement 11-15

Appendices
6A: Key questions
6B: Example protocol
Introduction

6.1 The responsibility for issuing an audit certificate on each grant claim or return rests with external auditors who use their professional judgement to determine the amount of work necessary and the effect of any errors and irregularities discovered. External auditors should consider the work of internal audit in this as well as any other areas of the audit to decide if further work is necessary.

6.2 Internal audit work on grant claims need not be solely for the purpose of reducing external audit work and costs. Other important considerations are:

- to provide assurance on the figures to the chief finance officer and thus enable him or her to sign the claim; and
- to provide assurance on the proper operation of financial systems as a part of internal audit's overall responsibility for systems and internal controls.

6.3 In practice the role of internal audit in grant claims and returns will vary from authority to authority and will depend very much on the approach taken by the chief finance officer and on the size and expertise of internal audit. Where internal audit is involved, it is essential that the respective roles of external and internal audit are properly understood.

6.4 There are broadly three degrees of internal audit involvement in grant work:

- no coverage at all, either because there are few grants or a small internal audit section;
- partial involvement, perhaps covering some aspects of grant areas, for example financial systems such as mandatory student awards; and
- full involvement, which could be either doing the audit of the claims using GIs or using GIs to guide the testing done as part of the normal audit programme.

Reliance on Internal Audit Work

6.5 When relying on internal audit work for their own work and issue of the audit certificate, external auditors will be guided by certain general considerations:

- the experience and proficiency of the internal audit staff involved;
• the extent of supervision arrangements;

• the adequacy of audit working papers;

• the proper resolution of exceptional or unusual matters; and

• the risk of error inherent in the area of the claim.

6.6 In general terms, external auditors will be able to place more reliance on internal audit tests of a financial system leading to an entry in a claim than on substantive tests which lead directly to claims of specific amounts of money. In all cases external audit will need to re-perform certain tests before certifying any claim.

6.7 Where internal audit work is used, there are certain steps which should be taken to maximise the benefits of the process, which might include:

• agreement on audit documentation;

• working to a common approach on systems;

• co-ordination of planning; and

• provision to internal audit of the relevant GIs.

Partial Involvement

6.8 Internal audit is likely to include work on the financial systems covering grant-eligible expenditure within the annual programme of work. This will help to provide assurance on the authority’s overall system of internal control. Typically, this might include review and testing of the systems relating to:

• housing and council tax benefit;

• student awards; and

• non-domestic rates.

6.9 Other systems or areas which might be covered by internal audit, possibly on a cyclical basis, are:

• sales of council houses;
• teachers' superannuation;

• school milk subsidy;

• highways; and

• magistrates' courts.

6.10 Where internal audit works in these areas it needs to be done at regular intervals and in sufficient depth. Where internal audit does such work it should be possible to agree with the external auditor that further tests directed at satisfying the requirements of the GIs will be carried out.

Full Involvement

6.11 Internal audit can contribute substantially to the verification of grant claims. This involves internal audit in auditing grant claims using the GIs with the agreement of the external auditor. This approach can be taken mainly with the aim of reducing external audit costs.

6.12 The process in these cases is broadly:

• accountants pass the claim to external audit for logging;

• external audit passes the claim and the relevant GI to internal audit (usually to a contact who will log the receipt), advising on the levels of testing and documentation required;

• internal audit will carry out the work according to the GI and external audit advice;

• the claim and internal audit's working papers are passed to external audit for rigorous review by the external auditor;

• external audit will determine whether the results of testing are adequate and whether additional work or re-performance is necessary, before signing the audit certificate.

6.13 An example of a protocol for joint working between external and internal audit is given as appendix 6B.
6.14 Problems that can arise from this arrangement include:

- conflict of interest not fully addressed through the external audit review;

- insufficient staff with the appropriate expertise to deal with the audit of grant claims; and

- the danger of other areas of audit being neglected and external audit picking up shortcomings which may offset the savings from grants work.

6.15 The opportunity cost of increased time spent by internal audit is difficult to calculate. The combined internal and external audit cost may be greater than if just external audit were involved, partly due to the additional costs of review by external audit. There is also a risk of over-auditing which emphasises the need for levels of testing to be discussed and agreed between the parties involved.
### Key Questions

*Consider action whenever the answer is NO*

<table>
<thead>
<tr>
<th>Answer</th>
<th>Comments /action required</th>
</tr>
</thead>
</table>

Has the authority discussed formally with the external auditor what use is made of internal audit on grant claim areas?

Has internal audit considered grant areas in the planning of its programme of work?

Where there is partial or full involvement of internal audit, does the internal auditor hold the current GI for the relevant grant and the general GIA2?

If internal audit is involved in the audit of grant-aided areas, has agreement been reached with external auditors on:

- audit documentation?
- common systems approach?
- planning of work?

If internal audit contributes substantially to the audit of grants, has the authority reviewed this from a cost-effectiveness perspective?

Has the authority reviewed the total time being spent on grants audit by internal and external audit?
Example Protocol for Certification of Grant Claims

General Principles

1. The responsibility for undertaking work on the certification of grant claims rests with external audit. This protocol lays down the framework under which external audit can place reliance on the work of internal audit on the certification of grant claims undertaken on behalf of external audit.

2. Internal and external audit will work together on the certification of grant claims to complete the required level of audit work as efficiently as possible, with the minimum of duplication. Internal audit will carry out its work in accordance with the standards, and using the documentation, prescribed in this protocol.

3. Only one file will be maintained in respect of each grant claim, ie external audit will not maintain a separate file for each claim. The file will be the property of external audit, but for practical purposes will be retained by internal audit. The file will not be disposed of without the consent of external audit.

Documentation

4. Internal audit will use the standard Audit Commission grant instructions (GIs) as the basis for their work and will fully complete the schedules of tests included in the GIs.

5. Internal audit will use and complete the following standard documentation:
   - index to file;
   - index to assignment approval and client communication;
   - in-charge auditor approval checklist;
   - in-charge auditor completion;
   - matters requiring senior group auditor decision;
• matters to be discussed with client;

• standard GI tests; and

• control environment assessment.

A copy of the above documentation is provided in the appendix to this protocol [not in this publication].

6. The Audit Commission GIs will be copied by external audit to internal audit on receipt.

**Approach to Testing**

7. The control environment assessment will be completed by internal audit before any testing is carried out on the claim and will be used to inform the level of testing necessary. The senior group auditor will review the assessment and agree the level of testing before any tests are performed. The Audit Commission has emphasised the importance of completing this assessment before audit testing is undertaken.

8. For each test specified on the GI a schedule will be prepared by internal audit which provides details under the following headings:

   - **Objective:** the purpose of the test
   - **Method:** the way in which the test has been constructed
   - **Results:** the results of the test, cross referenced to a detailed working paper, with exceptions noted
   - **Conclusion:** the auditor's overall conclusions of whether the test is satisfactory or not.

9. Internal audit will select samples of a size appropriate to the test. The size of the sample will depend on the population size and the nature of the test, but a sample of less that 10 items is unlikely to be sufficient in normal circumstances.

10. All entries on claim forms, including 'nil' and small values, will be subject to audit work – including checking entries to the income and expenditure accounts.
Summaries and Reporting

11. Internal audit will provide a summary of work done which, together with a brief description of the claim, will provide a conclusion for external audit on whether the claim can be certified.

12. During the audit of claims internal audit may suggest amendments to the claim, but all amendments must be agreed by external audit.

13. External audit will provide copies of certified claims and any associated reports to the council as they are sent to the grant-paying department.

External Review and Re-performance

14. External audit will review and approve the control environment assessment after it has been completed by internal audit and reviewed by the group auditor and before any tests are performed.

15. External audit will review the work of internal audit and will seek to rely on this work as the basis for providing an audit certificate for the claim.

16. External audit may identify the need for further work to be performed. The additional work may be undertaken by either external audit or by internal audit, by agreement between the two parties. Any requests for additional work will be channelled through the senior group auditor.

17. External audit may re-perform key tests for a sample of items for all claims reviewed by internal audit. External audit may also re-perform a complete audit for any claims reviewed by internal audit. It is anticipated that a complete re-performance will only be carried out on one or two claims each year.

Direct Review by External Audit

18. Internal audit and external audit will agree on an individual claim basis when it is appropriate for claims to be audited wholly by external audit. The following are examples of the circumstances where it might be appropriate:

- where a claim is particularly complicated and there may be advantages for external audit to complete these along with those for other local authorities – an example
might be the housing subsidy claim;

- where certification is relatively 'simple', requiring a straightforward agreement to the authority's accounting records. For these claims it is likely to take as long for external audit to review internal audit's work as it would to complete the audit directly – an example might be the precepts return; and

- where the audit is particularly sensitive and there is some element of interpretation in auditing the claim. For these claims the grant-paying department may be particularly uncomfortable with the prime work being undertaken by internal audit – an example might be the special transitional grant.

19. The audit of DSO/DLO statements of compliance with financial objectives, although covered by a GI, will fall outside this protocol and will be audited by external audit through the normal audit processes.

**Scheduling of Work**

20. Internal audit will provide a complete list of claims to be audited over a 12 month period April to March with a suggested timetable for audit by internal audit and external audit. The timetable will be agreed between internal audit and external audit by 31 March.

21. Original claim forms will be forwarded directly on receipt to external audit by the senior group auditor, with copies being retained for use by internal audit.

**Billing**

22. External audit will charge for the time input on the audit of grant claims and the associated administration in accordance with the Audit Commission's grade related fee levels (at the mid point). It is likely that a significant proportion of this time will be input at senior management level.

23. External audit will account for time incurred on a claim by claim basis, providing an analysis by grade. Invoices will be submitted in accordance with actual time incurred, normally on the basis of claims certified in the previous months.
Flexibility

24. Where both the council officers and external audit agree, this protocol may be varied to meet particular circumstances.
Chapter 7
EXTERNAL AUDIT

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Appendix

7A: Key questions
Introduction

7.1 As set out in chapter 1 the external auditors’ role in relation to grants and returns requiring audit certification is to satisfy themselves that claims are fairly stated and comply with the conditions of a scheme. External auditors fulfil this role by carrying out detailed audit procedures in accordance with instructions issued by the Audit Commission.

7.2 It is the responsibility of external auditors to seek to provide a cost effective audit service through appropriate training and direction of staff and maximum liaison with the authority in planning and carrying out audit procedures, and in the resolution of problems.

7.3 External auditors should seek to combine work on grant claims and returns with that required for the purposes of the audit opinion on the main financial statements and, where appropriate, using the work of internal audit. However, as described in chapter 6, the use of internal audit work does not absolve external auditors from their responsibility for the opinion on each claim.

External Audit Approach

7.4 Meetings to discuss problems with external auditors are likely to be more frequent near closure of accounts rather than at the planning stage. The benefits of liaising with external auditors early gives a department time to reap the full benefit of their expertise and specialisation gained from work at other authorities.

7.5 Authorities can expect the following from their external auditor.

• Early discussion about expected claims. Auditors will need to assess the time requirements for grant claims as part of the planning process for the audit. They may, therefore, need to discuss with authority staff the scope and substance of the year's grant claim work. Discussion should cover:

  – progress and development on grant claims where there have been problems in previous years;
  
  – new claims and their detailed requirements;
  
  – significant changes in existing claim requirements; and
– changes in deadlines, especially shortening of deadlines – auditors should also be prepared to supply authority staff with copies of relevant grant instructions.

- Agreement on target dates both for authorities and auditors. Without such agreement there is a danger that work will be compressed into short periods before the deadline for submission.

- Agreement on information and working papers needed to support the figures. It should be emphasised that the keeping of proper records is now a statutory requirement which should enable auditors to carry out their work satisfactorily. However, auditors will also need to document their work in their own files and agreement on copies of working papers to be supplied to the auditors can help to speed up their work.

- Work to be carried out by audit staff who are familiar with the subject area. While auditors cannot guarantee continuity of staff, authorities can expect that staff engaged on the work are properly instructed and directed on the work to be carried out.

- Discussion of internal audit's role and the extent of reliance to be placed on its work. This subject is covered in chapter 6.

- Prompt discussion of problems arising from grant claims work. In most cases problems arise through lack of information or systems failures; generally these can be solved through additional work to provide the necessary evidence. Authority staff can expect to be informed promptly so that they can plan for the additional work.

**7.6** Authorities should also expect to be consulted about any proposed amendments to, or reports on, grant claims or returns. Such consultation should ensure that there are no errors of fact and should establish whether there is no other solution to the problem identified.

**Authority Approach**

**7.7** Similarly there are areas where authorities can be pro-active in their relationship with external auditors on grants. These include:

- notification of new grant claims;
• notification of problems identified with any claim, for example a system failure;

• agreement on target dates for authorities and auditors;

• advice on planned internal audit involvement; and

• seeking relevant GIs for preparers and, where appropriate, internal audit staff.
Key Questions

Consider action whenever the answer is NO

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<th>Comments/action required</th>
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- Are discussions held with external auditors at the planning stage?
- Are target dates set and agreed with the external auditors?
- Are agreed target dates realistic in terms of overall closedown procedures, both for the completion of audit work and the resolution of any problems arising?
- Are agreements made with external auditors on documentation to be provided?
- Are arrangements in place for the prompt identification of problems for discussion with the external auditors?
- Has the authority been pro-active in discussing deadlines, staffing and other areas of concern with the external auditor?