

# **2005/06 Grant Outturn Report**

**Walsall Metropolitan Borough Council**

**Audit 2007-2008**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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

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# Summary report

## Introduction

- 1 During 2005/06 the council has completed and submitted 41 Grant claims to the Audit Commission for audit certification, compared to 55 claims in 2004/05. Individual claims range in value from a few thousand pounds to tens of millions for housing benefits.
- 2 This report summarises the findings from our audit of grant claims during 2005/06, and sets out recommendations to improve the process for 2006/07.
- 3 This report covers:
  - an assessment of the Council's compilation procedures for grant claims and returns; and
  - a summary of individual departmental performance.

## Background

- 4 At the end of each grants audit the Audit Commission produces a report highlighting areas of good practice as well as areas where performance needs to be improved,
- 5 Last year a number of recommendations were raised around submitting claim/returns on time (accompanied by a completed and actioned checklist), prime documentation being made available, and queries being resolved speedily.
- 6 These criteria have been addressed in this years report to see if there has been any improvement across the Council as a whole and within individual departments.
- 7 The report does make comparisons with last year's performance in order to add meaning to the results. However, caution needs to be used when comparing the years as at the date of this report a number of Sure Start returns have yet to be signed off; which could lead to further amendments or qualifications and there have been 14 fewer claims/returns submitted in 2005/06.

## Audit approach

- 8 In completing the audit of grant claims, we follow detailed guidance issued centrally by the Audit Commission; known as a certification instruction (CIs). The CIs are a step by step approach to auditing the grant claim. In carrying out this process auditors have recorded the work they have done, the results of the work and any actions taken. From this they have been able to assess the councils performance using the following criteria:
- was the claim submitted for audit on time;
  - were working papers and prime documents made readily available and their quality acceptable;
  - were audit queries resolved speedily;
  - did claim entries require amendment; and
  - did the claim require an audit qualification letter.

## Main conclusions

- 9 As at the date of this report there has been some improvement across the Council as a whole, but there is room for further improvement.
- 10 The number of claims submitted for audit late has fallen, as has the number of audit amendments required and the number of claims and returns submitted after the deadline.
- 11 The number of qualifications that have been required has stayed largely the same with 24 per cent of claims qualified in 2005/06 compared to 22 per cent in 2004/05. Although this does show an increase in the number of qualifications required the figures do need to be considered in conjunction with the large fall in the number of amendments that were required. This does however highlight that some working papers provided during the audit are not always adequate to give us the assurance we require.
- 12 All our findings and recommendations are noted in the detailed report section. An action plan can be found in Appendix 2.

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**Table 1 Results summary**

This table provides a summary of the council's performance in 2005/06 compared to that of 2004/05 across the key criteria used to measure performance in this area.

Criteria	2004/05	2005/06
Number of claims submitted	55	41
Number of qualifications	12 (22 per cent)	10 (24 per cent)
Number of amendments	20 (36 per cent)	8 (20 per cent)
Number of claims received late	35 (64 per cent)	24 (59 per cent)
Number of claims certified after the audit deadline	29 (53 per cent)	14 (34 per cent)

*Source: AF61 claims and returns record*

- 13** When reviewing the results summary above it has to be remembered that there are still five Sure Start returns that are yet to be certified. These could also result in amendment or qualifications. These returns are however, included in the number of claims certified after the deadline figures as the deadline has already passed. We are also still awaiting the EUR02 return to be submitted. It must also be pointed out that out of the 24 claims received late 11 of these were Sure Start returns.

## Detailed report

### Submission for audit by Government Department deadline

- 14 The Government department which pays the grant establishes the conditions for it. The department also agrees Certification instructions with the Audit Commission. The specified deadline for submission to the appointed auditor is usually three months prior to the deadline for submission of the audit certification.
- 15 For 2005/06 there has been a slight improvement in the council's submission performance. This year 24 out of 41 (59 per cent) were submitted late for audit compared with 35 out of 55 (64 per cent) in 2004/05. Table 2 details the grants submitted after their deadline date together with the actual date for submission.

**Table 2 Grant claims submitted late**

CI / Grant Claim	Submission deadline	Actual date of receipt
BEN01 / Housing Benefits and Council Tax Subsidy	30/05/2006	30/06/2006
EDU02 / Disability Discrimination Act	30/09/2006	19/12/2006
EDU29 / Performance Pay	30/06/2006	05/07/2006
EDU29 / Teachers Threshold	30/06/2006	05/07/2006
EDU33 / School Standards Grant	31/07/2006	02/08/2006
EUR01 / Quality Streets	30/09/2006	26/10/2006
EUR02 / ERDF 2000-06 programme	31/12/2006	Not yet submitted
EYC02 / Sure Start Birchills (Cap) 05/06	31/07/2006	30/08/2006
EYC02 / Sure Start Birchills (Rev) 05/06	31/07/2006	30/08/2006
EYC02 / Sure Start Blakenhall (Cap) 05/06	31/07/2006	17/11/2006
EYC02 / Sure Start Blakenhall (Rev) 05/06	31/07/2006	30/08/2006
EYC02 / Sure Start Alumwell Pleck (Cap) 05/06	31/07/2006	15/01/2007
EYC02 / Sure Start Alumwell Pleck (Rev) 05/06	31/07/2006	30/08/2006
EYC02 / Sure Start Darlaston (Cap) 05/06	31/07/2006	17/11/2006
EYC02 / Sure Start Darlaston (Rev) 05/06	31/07/2006	17/11/2006
EYC02 / Sure Start Darlaston (Cap) 04/05	31/07/2005	02/08/2006
EYC02 / Sure Start Palfrey (Cap) 05/06	31/07/2006	03/01/2007
EYC02 / Sure Start Palfrey (Rev) 05/06	31/07/2006	02/11/2006
HC08 / Mental Health Grant	02/10/2006	04/10/2006
RG03 / New Deal for Communities	30/09/2006	26/10/2006
RG32 / AWM URC Support Costs	30/06/2006	05/07/2006
RG32 / AWM Secretariat	30/06/2006	12/07/2006
RG32 / AWM Butlers Passage	30/06/2006	14/08/2006
SOC13 / Teenage Pregnancy	30/06/2006	03/07/2006

*AF61 claims and returns record*

### **Recommendations**

*R1 The council should endeavour to ensure that all claims reach the Audit Commission by the specified deadline. Where this is not possible it is good practice to agree extensions with the grant paying bodies.*

## **Adequacy of working papers and prime documents**

- 16** Working papers are to be provided where further detail or explanation is required for reconciling the grant entries to Oracle or the supporting system. Working papers may include non-financial records, for example notes on how the claim was completed.
- 17** Prime documents are usually in the form of invoices. These invoices are received by the Council (or partner) for services provided, and they make up the basis for the grant claim expenditure. In some cases, prime documents may be in the form of contracts or payroll documents.
- 18** This is an area of performance that needs to be improved across the council as a whole. In a few cases claims were submitted for audit without an accompanying working paper file and in many cases auditors had to go back to officers when working papers were provided for further information. This causes delays in the audit process as officers then have to balance further audit requests with existing workloads. Such requests result in additional costs to the Council as auditors and officers have to spend more time searching for information and resolving issues. An example of this are the Sure Start returns where working paper requests create large delays in certifying them.
- 19** In previous years the Council has introduced a checklist that accompanies each return when they are submitted for audit. This has a section which details what working papers should accompany each return. We regard this as a very important control in ensuring we have all the information we require to complete each audit. During this years audit a number of returns were submitted for audit with checklists stating that working papers have been submitted when they had not; highlighting the fact that this control is not always operating effectively.
- 20** Providing adequate working papers and supporting documentation remains a key issue for the council to address if it wishes to reduce the cost of the grant claims audit. This is part of the Councils responsibilities under the Audit Commissions Statement of Responsibilities document. A copy of this document can be found at Appendix 3.



- 21 There are however, some grant claims that provide examples of good practice. One such claim is the Improving Information Management Capital Grant. Whilst this is a relatively simple scheme the working paper files that are provided to support it are always complete with all the audit information required; which results in very few queries being directed at the preparing officer, and consequently less time spent on the audit.
- 22 We do appreciate that for some of the larger claims/returns it is not possible to include all prime documentation on the file. However, where this is the case the preparing officer should be able to provide copies of them quickly when they are requested.

### **Recommendations**

*R2 All claims/returns submitted should be accompanied by a comprehensive working paper file, including where possible copies of prime documentation.*

*R3 Where prime documentation cannot be placed on the working paper file the preparing officer should satisfy themselves that the prime documentation is available before submitting the claim/return for audit.*

*R4 All returns should be submitted via corporate finance using the Councils' own checklist. Corporate finance should also ensure that no claims/returns are submitted to the Audit Commission unaccompanied by a working paper file.*

*R5 Areas of good practice should be shared between departments, i.e what makes a good working paper file.*

## **Audit queries resolved speedily**

- 23 Although supporting working papers (and reconciliations to Oracle and other supporting systems) reduce audit queries it does not eliminate them.
- 24 Out of the 41 claims submitted audit queries were not resolved speedily in 16 instances. These delays in responding resulted in additional auditor time being required to complete the certification process and could have potentially resulted in the claims missing the audit certification deadline, as has been the case with the Sure Start claims.

### **Recommendations**

*R6 The Council needs to ensure that all audit queries are resolved speedily to allow certification deadlines to be met*

## Amendments and qualification letters

- 25 Our grant claim audit work results in one of three situations:
- amendments to the claim figures; and/or
  - audit qualification letter to be issued; or
  - grant claim being certified.
- 26 Of the 41 claims submitted, 8 were amended (20 per cent) and 10 (24 per cent) required audit qualification letters. The comparative figures for the 2004/05 audit year were 36 per cent and 22 per cent of the total claims submitted
- 27 Amendments and qualification letters can lead to the grant-paying body returning claims to the Council requesting that additional work be completed to resolve audit issues raised. They may also lead to grant monies being clawed back.
- 28 Additional audit work requires not only Audit Commission staff to perform further work, at additional cost to the council, but further work by officers as well. This is not an efficient use of auditor or officer time.
- 29 There has been a decrease in the number of amendments made to grant claims (see paragraph 26). The procedures the council has in place require all grant claims to go through a number of quality reviews before they reach the Audit Commission. However, in a number of cases these reviews failed to identify a number of arithmetical errors before the claims were submitted, resulting in extra audit time at the end of the process agreeing the changes that needed to be made. In addition the accompanying checklist very often stated that these checks had been carried out.

30 The value of the amendments made are detailed in table 3.

**Table 3 Amendment values**

<b>CI / Grant Claim</b>	<b>Value of amendment made</b>
PEN04 / Staff Related Inherited Liabilities	Data amended rather than expenditure
PEN05 / Teachers Pensions'	£198.70
EDU02 / Adult & Community Learning	£908.78
EDU33 / School Standards Grant	£9,549
EYC08 / Sure Start Birchills (Cap)	£15,930
BEN01 / Housing Benefits and Council Tax Subsidy	£479,526
RG01 / Single Regeneration Budget	£540
RG03 / New Deal for Communities	Various amendments made due to arithmetical errors.

*AF61 claims and returns record- NB - The above excludes the outstanding Sure Start claims*

***Recommendations***

*R7 Once the claim has been prepared it should be checked for errors by both the preparers supervising officer and the service finance team before each return is submitted to the Audit Commission.*

## Departmental performance

- 31 Table 4 breaks down the information presented in the rest of this report on a departmental basis. This highlights Education as a department where the most improvement is required. This is in main down to the delays encountered during the Sure Start audit.
- 32 The majority of qualifications (6 out of 10) were on Regeneration claims/returns. This could be a reflection of the general complexity of the Regeneration claims or it could highlight areas where controls around the documenting and recording of information need to be improved.

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**Table 4 Performance of individual departments**

Department	No.	Submitted for audit after the deadline	Working papers inadequate	Audit queries not resolved speedily	Audit not completed within the deadline	Claim qualified	Claim figures amended
Corporate Services	3	0	0	1	0	0	2
Education	18	16	16	12	12	1	3
Revenues and Benefits	2	1	2	1	0	2	1
Regeneration	12	6	1	1	1	6	2
Social Care and Inclusion	6	2	0	1	1	1	0

## Appendix 1 – Summary of information by department

### Corporate Services

CI Ref:	Claim details	Submitted by deadline	Working papers adequate	Audit queries resolved speedily	Certification deadline met	No qualification letter	No amendment required
CFB06	Pooling of Housing Capital Receipts	✓	✓	✓	✓	✓	✓
PEN04	Staff Related Inherited Liabilities	✓	✓	✓	✓	✓	x
PEN05	Teachers' Pensions	✓	✓	x	✓	✓	x

## Education

CI Ref:	Claim details	Submitted by deadline	Working papers adequate	Audit queries resolved speedily	Certification deadline met	No qualification letter	No amendment required
EDU02	Adult and Community Learning	✓	✓	✓	✓	✓	x
EDU02	DDA/SEND	x	x	✓	✓	✓	✓
EDU29	Performance Pay	x	✓	✓	✓	✓	✓
EDU29	Teachers Threshold	x	✓	✓	✓	✓	✓
EDU33	School Standards Grant	x	x	✓	✓	x	x
EYC02	General Sure Start Grant	✓	x	x	x	N/A	N/A
EYC06	Children's Fund	✓	✓	✓	✓	✓	✓
EYC08	Sure Start Birchills (Cap)	x	x	x	x	✓	x
EYC08	Sure Start Birchills (Rev)	x	x	x	x	✓	✓
EYC08	Sure Start Blakenhall (Rev)	x	x	x	x	✓	✓
EYC08	Sure Start Blakenhall (Cap)	x	x	x	x	✓	✓

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CI Ref:	Claim details	Submitted by deadline	Working papers adequate	Audit queries resolved speedily	Certification deadline met	No qualification letter	No amendment required
EYC08	Sure Start Alumwell Pleck (Rev)	x	x	x	x	✓	✓
EYC08	Sure Start Alumwell Pleck (Cap)	x	x	x	x	N/A	N/A
EYC08	Sure Start Darlaston (Rev)	x	x	x	x	N/A	N/A
EYC08	Sure Start Darlaston (Cap)	x	x	x	x	✓	✓
EYC08	Sure Start Darlaston 04/05 (Cap)	x	x	x	x	✓	✓
EYC08	Sure Start Palfrey (Rev)	x	x	x	x	N/A	N/A
EYC08	Sure Start Palfrey (Cap)	x	x	x	x	N/A	N/A

## Revenues and Benefits

CI Ref:	Claim details	Submitted by deadline	Working papers adequate	Audit queries resolved speedily	Certification deadline met	No qualification letter	No amendment required
BEN01	Housing Benefits and Council Tax Subsidy	x	x	x	✓	x	x
LA01	NNDR	✓	x	✓	✓	x	✓



## Regeneration

CI Ref:	Claim details	Submitted by deadline	Working papers adequate	Audit queries resolved speedily	Certification deadline met	No qualification letter	No amendment required
EUR01	Regeneration Co-ordinators	✓	✓	✓	✓	✓	✓
EUR01	Walsall Revitalisation	✓	✓	✓	✓	x	✓
EUR01	District Centre Revitalisation	✓	✓	✓	✓	✓	✓
EUR01	Walsall URC	✓	✓	✓	✓	x	✓
EUR01	Quality Streets	x	✓	✓	✓	✓	✓
EUR01	Black Country	✓	✓	✓	✓	✓	✓
EUR02	ERDF 2000-06	x	N/A	N/A	N/A	N/A	N/A
RG01	SRB	✓	x	x	x	x	x
RG03	New Deal	x	✓	✓	✓	x	x
RG32	AWM URC Support Costs	x	✓	✓	✓	x	✓
RG32	AWM Secretariat	x	✓	✓	✓	x	✓
RG32	AWM Butlers Passage	x	✓	✓	✓	✓	✓

## Social Care and Inclusion

CI Ref:	Claim details	Submitted by deadline	Working papers adequate	Audit queries resolved speedily	Certification deadline met	No qualification letter	No amendment required
HC08	Mental Health Grant	x	✓	✓	✓	✓	✓
HOU21	Disabled Facilities Grant	✓	✓	✓	✓	✓	✓
SOC08	Improving Information Management Capital Grant	✓	✓	✓	✓	✓	✓
SOC13	Teenage Pregnancy	x	✓	✓	✓	✓	✓
SOC31	Choice Protects	✓	✓	✓	✓	✓	✓
SOC31	Adoption Support	✓	✓	x	x	x	✓

## Appendix 2 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 The council should endeavour to ensure that all claims reach the Audit Commission by the specified deadline. Where this is not possible it is good practice to agree extensions with the grant paying bodies.	3	Head of Corporate and Strategic Finance	Yes	The council currently attempts to do this and will continue to do so. In addition, when files are presented we will ask the audit representative to sign for receipt and completeness.	Ongoing.
9	R2 All claims/returns submitted should be accompanied by a comprehensive working paper file, including where possible copies of prime documentation.	3	Head of Corporate and Strategic Finance	Yes	We will issue reminders about the quality and timing production of working papers. We will work with Education Walsall to produce a procedure note to ensure compliance. We will provide training for those new to dealing with grants.	Ongoing. Reminder: End April.
9	R3 Where prime documentation cannot be placed on the working paper file the preparing officer should satisfy themselves that the prime documentation is available before submitting the claim/return for audit.	3	Head of Corporate and Strategic Finance	Yes	This is in place via completion of the checklist/ We will send a reminder to all as to their individual responsibility and role in signing the checklist and ensuring prime documentation is available.	Ongoing. Reminder: End April.
9	R4 All returns should be submitted via corporate finance using the Councils own checklist. Corporate finance should also ensure that no claims/returns are submitted to the Audit Commission unaccompanied by a working paper file.	3	Head of Corporate and Strategic Finance / Head of Finance (CYP)	Yes	This process is in place, other than for Sure Start and Benefits. We will introduce this and add an additional check to ensure that this is signed off by a senior council officer.	End April.

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date.
9	R5 Areas of good practice should be shared between departments, ie what makes a good working paper file.	2	Head of Corporate and Strategic Finance	Yes	Good practice will be identified and shared.	End April.
9	R6 The Council needs to ensure that all audit queries are resolved speedily to allow certification deadlines to be met.	3	Head of Corporate and Strategic Finance	Yes	Reminders will be sent. The grants manual updated to include officer response times to grant claim audit queries.	End April. End July 2007.
10	R7 Once the claim has been prepared it should be checked for errors by both the preparers supervising officer and the service finance team before each return is submitted to the Audit Commission.	2	Head of Corporate and Strategic Finance	Yes	Reminders will be sent.	End April.

## **Appendix 3 – Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns**

<b>Corporate</b>
<b>Briefing</b>



# **Statement of responsibilities**

of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns

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

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

**This statement highlights the different responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns. It was first published in February 2002, but is now revised following consultation with stakeholders in 2003 on the Audit Commission’s think-piece *Grant claims – reducing the audit certification burden*.**

**The Audit Commission has also published two corporate briefings, *Claims and returns: Good practice for grant-paying bodies* and *Claims and returns: Good practice for authorities* (Audit Commission – available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).**

## Introduction

- 1 Grant-paying bodies may require certification by an appropriately qualified and independent accountant of authorities’ claims for grant or subsidy, and of other returns of financial information. Certification is one option for providing assurance as to the basis of an authority’s entitlement to grant or subsidy or, in the case of a return, as to the information provided. Grant-paying bodies, authorities, the Audit Commission (the Commission) and its appointed auditors all have an interest in ensuring that claim and return certification procedures operate efficiently and effectively and with a common understanding by all parties of their respective responsibilities.
- 2 The purpose of this statement is to summarise the framework under which the Audit Commission will make certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where those different responsibilities begin and end.
- 3 Throughout this statement:
  - ‘appointed auditor’ is the auditor appointed by the Audit Commission under section 3 of the Audit Commission Act 1998 to audit an authority’s accounts who, for the purpose of certifying claims and returns under section 28 of the Act, acts as an agent of the Commission. In this capacity, whilst qualified to act as an independent external auditor, the appointed auditor acts as a professional accountant undertaking an assurance engagement governed by the Commission’s certification instruction arrangements;
  - ‘assurance engagement’ is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;
  - ‘authorities’ means all bodies whose auditors are appointed under the Audit Commission Act 1998, which have requested the certification of claims and returns under section 28(1) of that Act;

- ‘certification instructions’ (CIs) are a series of written instructions from the Commission to appointed auditors on the certification of claims and returns;
- ‘certify’ means the completion of the certificate on a claim or return by the auditor appointed by the Audit Commission in accordance with arrangements made by the Commission;
- ‘claims’ includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;
- ‘grant-paying bodies’ includes government departments and agencies, the Welsh Assembly Government, public authorities and the European Commission directorates and its agents requiring the completion of claims and returns;
- ‘returns’ are either:
  - returns in respect of a grant which do not constitute a claim, for example, statements of expenditure from which the grant-paying body may determine grant entitlement; or
  - returns other than those in respect of grant, which must or may be certified by the authority’s auditor, or under arrangements made by the Commission; and
- ‘underlying records’ are the accounts, data and other working papers supporting entries on a claim or return.

## Audit Commission certification arrangements

- 4 Under section 28 of the Audit Commission Act 1998, the Commission shall, if required by authorities, make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or public authority to any body subject to audit under the Act. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements.
- 5 Notwithstanding any desire by a grant-paying body or authority to have claims or returns certified by the Commission’s appointed auditor, the Commission has been advised that it is entitled to exercise reasonable discretion in meeting its statutory obligations and that it can make a judgement whether it is appropriate to make certification arrangements in specific cases, having regard to the particular circumstances of a scheme, the sums involved, the likely auditor workload and the likely costs of certification. In practice, this means that the Commission can decline to make certification arrangements where it deems it appropriate to do so.
- 6 In order to manage the number of claims and returns requiring certification and the consequential regulatory burden on authorities, the Commission has decided that its certification arrangements should be proportionate to the amount of grant involved and that grant-paying bodies must secure the Commission’s formal agreement to make certification arrangements before certification by one of its appointed auditors is made a condition of grant.

## 24 2005/06 Grant Outturn Report | Appendix 3 – Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns

- 7 The certification arrangements that the Commission will make are summarised below. In all cases the financial limits are by reference to the total amount claimed, rather than the grant allocation or the total eligible expenditure. In the case of projects, the financial limit is by reference to the total amount claimable over the lifetime of the project:
- For claims and returns below a de minimis amount set by the Commission (currently £50,000), the Commission will not make certification arrangements, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions. As a condition of their appointment as an auditor appointed by the Audit Commission, appointed auditors are also prevented from certifying claims or returns below the de minimis amount in any other capacity.
  - For claims and returns between the de minimis amount and a threshold to be set by the Commission (currently £100,000), auditors will undertake limited tests to agree form entries to underlying records, but will not undertake any testing of the eligibility of expenditure or data.
  - For claims and returns over the threshold, auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.
- 8 The Commission requires grant-paying bodies to secure the Commission's formal agreement at scheme or programme level that it will make certification arrangements, before certification by its appointed auditor is made a condition of grant. To this end, the Commission requires the Principal Finance Officer, or equivalent, of the grant-paying body to write to the Head of the Grants Team at the Commission<sup>1</sup> at an early stage, requesting auditor certification. The letter is to be accompanied by a copy of the grant terms and conditions, the claim form or return requiring certification and a list of potential claimant authorities and the amount claimable by each. The Commission requires a period of no less than twenty working days to respond to the grant-paying body. The Commission will not make certification arrangements unless its formal agreement to do so has been secured in accordance with this statement.
- 9 The Commission provides general guidance on the certification of claims and returns to its appointed auditors in the annually updated CI A01 General Certification Instructions (Audit Commission - available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)). The form of auditor's certificate to be given is set out at the end of this statement.

<sup>1</sup> Audit Policy and Appointments, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR.



## Grant-paying bodies

- 10 The effectiveness of a grant-paying body's arrangements for securing independently certified information depends on the grant-paying body:
- specifying robust and practicable terms and conditions in accordance with which an authority prepares its claim or return and gives its certificate; and
  - specifying appropriate authority and auditor certification arrangements.
- 11 Grant-paying bodies are responsible for providing:
- grant terms and conditions which:
    - are available in sufficient time to enable authorities to plan and make best use of the funding available;
    - are clear as to the aims and objectives of the scheme, who can claim, the period during which eligible expenditure will be supported and the way grant entitlement will be calculated;
    - provide clear definitions of eligible expenditure and any performance measures on which entitlement to grant is based; and
    - are clear as to the role and responsibilities of the various parties involved in schemes operated by partnerships, in particular in identifying the responsible administering body and liabilities for repayment in the event of default;
  - claim forms and returns which:
    - are available in sufficient time to enable authorities to make arrangements to collect information and to complete the claim forms and returns by the prescribed deadline;
    - are properly designed so as to collect the information necessary for the calculation of grant entitlement, or required by the return in question, but avoid collecting detail not relevant to the grant calculation;
    - are supported by clear and comprehensive notes to secure their consistent completion, in particular as to the basis of the entries required (for example, on the basis of accruals or cash accounting);
    - are, other than in exceptional circumstances, based on proper accounting practices and on an authority's accounting year to 31 March, have completion deadlines which fit with the authority's preparation of its accounts, and have auditor certification deadlines which enable the auditor to co-ordinate certification of claims or returns with the audit of the authority's accounts where appropriate;
    - incorporate appropriate certificates by the authority and, where required, by the auditor (see paragraphs 12 and 32). The authority's certificate, which must be required to be given before the claim or return is passed to the auditor, must provide at least as much assurance as that required of the appointed auditor, but may also provide assurance on areas not appropriate to the appointed auditor's certificate; and
    - have a prescribed timetable for both their preparation and auditor certification, with appropriate retentions to encourage compliance.

- 12 Grant-paying bodies are responsible for specifying appropriate authority and auditor certification requirements including who may give the authority's certificate on the claim or return and which auditor may certify it (normally either any appropriately qualified independent accountant or the Commission's appointed auditor). Appropriate assurance should be taken from certificates given by chief finance officers. Grant-paying bodies should consider carefully whether auditor certification of a particular scheme is required having regard to the costs involved relative to the amounts of grant claimed. Auditor certification should not be required for claims relating to small amounts, expenditure that is regular or predictable over time or has few conditional provisions and no complex terms, or where other information or data or other monitoring of information about outcomes is available that provides assurance as to the appropriate use of grant monies.
- 13 If certification by a Commission appointed auditor is or may be required, a grant-paying body must:
- secure the Commission's formal agreement that the Commission will make certification arrangements (see paragraph 8);
  - familiarise itself with the general guidance that the Commission provides to its appointed auditors in the annually updated CI A01 General Certification Instructions (Audit Commission – available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)); and
  - engage in timely consultation with the Commission to enable it to draft instructions to its appointed auditors on the basis of the terms and conditions and forms provided by the grant-paying body, to consult the grant-paying body on the draft and secure its written agreement to the instruction before publication (see paragraphs 20 to 26).
- 14 Grant-paying bodies must deal promptly with qualified certificates on claims or returns to ensure that matters are resolved and do not recur year after year.

## Authorities

- 15 Authorities are responsible for the proper and accurate preparation of claims and returns and for the establishment of effective administrative and financial systems, including proper arrangements to prevent and detect fraud or error. They need to satisfy themselves that they will be able to comply with the terms and conditions of a grant, including auditor certification requirements (see paragraph 19), before accepting it. Authorities are also responsible for exercising proper degrees of supervision and review of completed claims or returns before completing the authority's certificates. The authority's certificate on a claim or return must be completed before it is passed to the appointed auditor for examination. Auditors will not certify claims or returns where the authority's certificate has not been completed.
- 16 The chief finance officer of a local authority is responsible for ensuring that supporting accounting records are sufficient to show the authority's transactions, are maintained



in accordance with proper practices and kept up to date, including a record of income and expenditure in relation to claims.

17 Authorities are responsible for ensuring that claims and returns:

- are completed accurately and in accordance with the scheme terms and conditions;
- are supported by systems of internal control, including systems of internal financial control and internal audit, which are both adequate and effective in practice;
- are completed in a timely fashion so that deadlines are met;
- are supported by adequate working papers, including, where applicable, non-financial records, which:
  - satisfy the statutory requirement on the chief finance officer of a local authority to maintain adequate records in relation to claims;
  - document the basis of the claim or return and the derivation of the information it contains; and
  - are kept in a form that will help the appointed auditor and reduce certification time and, therefore, the cost to the authority; and
- are subject to proper supervision and review prior to completion of the authority's certificate so that the assurance given by the authority certificate is well founded.

Where these responsibilities are fully discharged it is more likely that the auditor will be able to conclude that reliance can be placed on the control environment for the preparation of a particular claim or return and so be able to limit the certification work required.

18 Irrespective of who may complete claims and returns for the authority, grant-paying bodies always require the authority's certificate to be given by an appropriate senior officer, typically the chief finance officer, or an officer authorised by written delegated powers. The authority's certificate should be given only when the certifying officer is satisfied with the entries made and that the assurance given by the authority's certificate is well founded.

19 Where claims or returns require auditor certification, authorities are responsible for ensuring that they are certified only by an auditor acceptable to the grant-paying body. Grant-paying bodies may restrict certification to the Commission's appointed auditor in accordance with the arrangements set out in this statement or to any accountant who is both independent and appropriately qualified. Where an authority intends to ask its Audit Commission appointed auditor to certify a claim or return it should, before it accepts the grant terms and conditions, confirm with the grant-paying body that the grant-paying body has secured the Commission's formal agreement to make certification arrangements on the basis set out in this statement (see paragraph 8). Authorities should not assume that the Commission will automatically make certification arrangements and/or provide certificates in the manner required by the grant-paying body. Where an authority makes arrangements

for claims or returns to be certified other than through the Audit Commission, it needs to be able to demonstrate to the grant-paying body, if required, that the accountant is independent and holds any qualifications specified by the grant-paying body.

## Audit Commission

- 20 Under section 28 of the Audit Commission Act 1998, the Commission shall, if required by authorities, make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or public authority to any body subject to audit under the Act. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The framework within which the Commission will decide whether or not to make certification arrangements in any particular case is set out in the first section of this statement.
- 21 In making certification arrangements, the Commission:
- may do so only at the request of authorities;
  - is not subject to direction by grant-paying bodies; and
  - must charge authorities such fees as will cover the full cost of certification.
- 22 The certification arrangements made by the Commission comprise a series of CIs which the Commission's appointed auditors must follow. The certificate included on each claim or return requires the appointed auditor to apply some, or all, of the tests in the relevant CI, depending on the amount claimed and the auditor's assessment of the control environment for the preparation of the claim or return. The relevant CI is specific to each scheme, but it needs to be read in conjunction with CI A01, which provides background information and explains the approach and procedures to be adopted.
- 23 Certification work using certification instructions is not an audit but a different form of assurance engagement designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions. Statements of Auditing Standards (SASs), the Auditing Practices Board's Practice Note 10 and the Audit Commission's *Code of Audit Practice* do not apply to certification work.
- 24 The purpose of CIs is:
- to set out the procedures to be applied in the examination of a claim or return;
  - to convey much of the background information which would otherwise have to be sought by appointed auditors, thereby reducing the overall costs to auditors and authorities; and
  - to leave grant-paying bodies and their auditors in no doubt as to the nature of work undertaken by appointed auditors before giving their certificate.
- 25 In making arrangements under section 28, the Commission will have regard to what it is appropriate, practically and professionally, to expect the certification process and

appointed auditors to do, whether in terms of:

- the nature or extent of the work required;
- the level of assurance sought; or
- the robustness of the criteria to be applied.

26 The Commission is responsible for drafting CIs, agreeing drafts of scheme-specific CIs with grant-paying bodies, undertaking appropriate consultation on CIs for new schemes, issuing CIs and responding to queries from appointed auditors when applying CIs. The Commission consults with appointed auditors where there are significant changes to certification requirements. The Commission will also deal with queries from grant-paying bodies that arise after auditor certification where further reference to the appointed auditor may be called for. CIs are prepared by the Audit Commission for use only by the Commission's appointed auditors in accordance with the arrangements made under section 28 of the Audit Commission Act 1998. CIs are not available to other independent accountants appointed by authorities and the Commission accepts no responsibility for their use other than by the Commission's appointed auditors.

## Audit Commission appointed auditors

27 Appointed auditors act as agents of the Commission when undertaking certification work and, while qualified to act as independent external auditors, are not performing an audit but a different form of assurance engagement, the precise nature of which will vary according to the amount of the claim or return. When giving the appointed auditor's certificate on a claim or return, the appointed auditor is required to carry out certification work and complete the auditor's certificate in accordance with arrangements made by the Commission.

28 Commission appointed auditors will only certify claims and returns in accordance with the arrangements set out at paragraphs 4-9 of this statement. As a condition of their appointment by the Commission, appointed auditors are prevented from certifying claims and returns outside of these arrangements.

29 Commission appointed auditors are required:

- to review the information contained within the claim or return and to express a conclusion whether the claim or return:
  - is in accordance with the underlying records (*claims and returns between the de minimis amount and the threshold*); or
  - is fairly stated and in accordance with the relevant terms and conditions (*claims and returns over the threshold*).
- to examine the claim or return and related accounts and records of the authority in accordance with CI A01 and the CI specific to the claim or return. In carrying out their work, the appointed auditor will obtain such evidence and explanations from the authority as the appointed auditor considers necessary to form a

conclusion. Where testing is required, the level of testing is a matter of professional judgment according to the particular circumstances of the authority and the claim or return as well as the appointed auditor's assessment of risk. Where a minimum sample size is specified in the relevant CI, the appointed auditor must use professional judgment to determine whether testing over and above that specified minimum is required in the particular circumstances;

- subject to compliance with CI requirements and where testing is required, to direct work to those matters that, in the appointed auditor's view, significantly affect the claim or return. In assessing the extent to which amounts included in a claim or return are in accordance with the conditions under which it is made, the appointed auditor acts as a professional accountant and not a legal expert;
- to plan and complete their work in a timely fashion so that deadlines are met; and
- to complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in CI A01 and to provide authorities with copies of certified claims and returns, and qualification letters for information. The appointed auditor's certificate and qualification letter are provided for the use of the grant-paying body and the authority. Appointed auditors should not disclose certificates and qualification letters, in whole or in part, to third parties other than those with statutory rights of access to them. The National Audit Office, or other auditor of a grant-paying body, may use the appointed auditor's certificate and qualification letter in connection with the audit of the grant-paying body.

30 Because of the inherent limitations of any control structure, errors or irregularities, including fraud, may occur and not be detected. Accordingly, the appointed auditor's responsibility in respect of claims or returns is to express a conclusion, on the basis of appropriate and sufficient evidence in relation to the tests contained in certification instructions, that evidence being persuasive rather than conclusive.

31 In particular, these arrangements do not place on appointed auditors a responsibility to either:

- identify every error in a claim or return; or
- maximise the authority's entitlement to income under it.

Where testing is required, appointed auditors do not perform detailed tests to the extent that would be necessary to disclose all errors and failures to maximise entitlement, and the certification process should not be relied upon to disclose all such matters.

32 The appointed auditor's certificate derives from that jointly published by several government departments at the time of the Commission's formation and subsequently has been widely adopted by other grant-paying bodies. It has now been updated to include reference to this Statement of Responsibilities and to the Commission's general instructions to its appointed auditors on certification work (CI A01). Appointed auditors will give a certificate in this form where it is built into a claim or return or where no form of certificate is prescribed, and will give a different form only in exceptional circumstances and where the relevant CI requires it.



**Certificate of the auditor appointed by the Audit Commission**

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors.

I/We have examined the entries in this form (which replaces or amends the original submitted to me/us by the authority dated \_\_\_\_\_)\* and the related accounts and records of the authority in accordance with Certification Instruction A01 and I/we have:

*For claims and returns above de minimis and up to the threshold #*

- carried out Part A tests in Certification Instruction number \_\_\_\_\_ and obtained such evidence and explanations as I/we consider necessary.

(Except for the matters raised in the attached qualification letter dated \_\_\_\_\_) \*  
I/we have concluded that the claim or return is in accordance with the underlying records.

*For claims and returns over the threshold #*

- assessed the control environment for the preparation of this claim or return in accordance with Certification Instruction A01 and, on the basis of my/our assessment, carried out Part A/Parts A and B\* tests in Certification Instruction number \_\_\_\_\_ and obtained such evidence and explanations as I/we consider necessary.

(Except for the matters raised in the attached qualification letter dated \_\_\_\_\_) \*  
I/we have concluded that the claim or return is:

- fairly stated; and
- in accordance with the relevant terms and conditions.

Signature \_\_\_\_\_

Name (block capitals) \_\_\_\_\_  
on behalf of the Audit Commission

Date \_\_\_\_\_

\* Delete as necessary

# Delete non-applicable certificate

CF1 (4/04)