

CHIEF LOCAL GOVERNMENT AUDITOR'S

Claims & Returns Certification Instructions – June 2013

INTRODUCTION

Paragraphs

- | | |
|---------|--|
| 1 - 4 | Introduction and definitions |
| 5 - 17 | Chief Local Government Auditors certification arrangements |
| 18 - 20 | Preparation and availability of Chief Local Government Auditor's Certification Instructions for Claims and Returns |
| 21 | Fees for certification work |

APPROACH TO CERTIFICATION WORK

- | | |
|---------|--|
| 22 | Approach |
| 23 – 24 | Planning and control |
| 25 – 27 | Integration with and reliance on other work |
| 28 – 30 | Certification arrangements |
| 31 – 32 | The risk and testing assessment |
| 33 – 39 | Sample sizes, sampling and additional work |
| 40 – 46 | Supporting accounting records and auditors' working papers |
| 47 – 49 | Claims and returns requiring assurance from another body |

CERTIFICATION, AMENDMENTS AND QUALIFICATION LETTERS

- | | |
|---------|--|
| 50 – 52 | Audit certificate |
| 53 – 55 | Local government body amendments |
| 56 – 61 | Local government auditor qualification letters |
| 62 – 65 | Issue of certified claims and returns |

QUERIES FROM GRANT-PAYING BODIES

- | | |
|----|----------------------|
| 66 | Before certification |
| 67 | After certification |

MISSING AND OVERDUE CLAIMS AND RETURNS

- | | |
|---------|-------------------|
| 68 | Prompt Submission |
| 69 – 70 | Overdue claims |

RESTRICTIONS ON DISCLOSURE

- | | |
|----|--|
| 71 | |
|----|--|

APPENDICES

- | | |
|---|--|
| 1 | Statement of responsibilities of grant-paying bodies, local government bodies and the chief local government auditor in relation to claims & returns |
| 2 | Risk and testing assessment |
| 3 | Standard tests |
| 4 | Certification checklist |
| 5 | Local government body working papers in support of claims and returns |

Grant-paying bodies, district councils and others should address queries on the Chief Local Government Auditor's Claims and Returns Certification Instructions to:

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INTRODUCTION

1. Grant-paying bodies may require certification by an appropriately qualified and independent accountant of local government bodies' claims for grant or subsidy, and of other returns of financial information. Certification is one option for providing assurance on the entitlement of a local government body to grant or subsidy or, in the case of a return, on the information provided.
2. Under Article 25 of the Local Government (Northern Ireland) Order 2005 (the Order), the Chief Local Government Auditor shall, if required by local government bodies, make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any grant-paying body to that local government body. The framework within which the Chief Local Government Auditor will decide whether or not to agree to undertake certification work in any particular case is set out in paragraphs 5 to 17 below.
3. This instruction provides general guidance to auditors on the certification of claims and returns and explains the approach and procedures to be adopted.

Definitions

4. Abbreviations used in the Chief Local Government Auditor's Claims and Returns Certification Instructions:
 - **'grant-paying bodies'** includes government departments and agencies, public authorities and the European Commission directorates and its agents requiring the completion of claims and returns;
 - **'local government bodies'** means all local government bodies whose auditors are designated local government auditors under Article 4 of the Order, which have requested the certification of claims and returns under Article 25 of the Order;
 - **'auditor'** is a person carrying out the detailed checking of claims and returns on behalf of the Chief Local Government Auditor;
 - **'Chief Local Government Auditor'** is the local government auditor designated as Chief Local Government Auditor, by the Department of the Environment, with the consent of the Comptroller and Auditor General for Northern Ireland in accordance with Article 4 of the Order;
 - **'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;
 - **'Certification Instructions'** are the written instructions from the Chief Local Government Auditor on the certification of claims and returns;
 - **'certify'** means the addition by the Chief Local Government Auditor, of his/her audit certificate on a claim form or return;
 - **'claims'** includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;

- **'limited assurance'** is where the Chief Local Government Auditor performs such procedures (as required by the Certification Instructions) as to obtain information and explanations which provide sufficient appropriate evidence for him/her to give a limited assurance conclusion. This conclusion would state that "nothing has come to the Chief Local Government Auditor's attention to indicate that claims and returns are not fairly stated and are not in accordance with specified terms and conditions". This is the normal form of assurance given under the Chief Local Government Auditor's arrangements;
- **'qualification'** arises where there is a matter of disagreement between the Chief Local Government Auditor and the receiving body- or an uncertainty arising from an inability to obtain sufficient appropriate audit evidence- as to the entries in the claim or return which determine entitlement. In these circumstances, the Chief Local Government Auditor's certificate will refer to an accompanying qualification letter which sets out the facts- as agreed by the Chief Local Government Auditor and the local government body – so that the grant-paying body may then determine actual entitlement.
- **'the Order'** is the Local Government (Northern Ireland) Order 2005;
- **'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 local government body's auditor, or under arrangements made by the Chief Local Government Auditor;
- **'underlying records'** are the accounts, data and other working papers supporting entries on a claim or return; and
- **'Statement'** is the statement of responsibilities of grant-paying bodies, local government bodies and the Chief Local Government Auditor in relation to claims and returns, reproduced as Appendix 1 to the Chief Local Government Auditor's Claims and Returns Certification Instructions. Copies have been sent to all grant-paying bodies and local government bodies.

Chief Local Government Auditor certification arrangements

5. Under Article 25 of the Order, the Chief Local Government Auditor shall, if required by local government bodies, make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any grant-paying body to any local government body subject to audit under the Order.

6. Notwithstanding any desire by a grant-paying body or local government body to have claims or returns certified by the Chief Local Government Auditor, the Chief Local Government Auditor is entitled (on the basis of legal opinion received by the Audit Commission on equivalent legislation to the Order) to exercise reasonable discretion in meeting statutory obligations. This means he/she can make a judgement whether it is appropriate to undertake certification work in specific cases, having regard to the particular circumstances of a scheme or programme, the sums involved, the likely auditor workload

and the likely costs of certification. In practice, this means that the Chief Local Government Auditor can decline to agree to undertake certification work where he/she deems it appropriate to do so.

7. The Chief Local Government Auditor requires grant-paying bodies to secure the Chief Local Government Auditor's formal agreement at scheme or programme level to undertake certification work before certification by the Chief Local Government Auditor is included as a condition of the scheme/programme. To this end, the Chief Local Government Auditor requires the Principal Finance Officer, or equivalent, of the grant-paying body to write to the Chief Local Government Auditor at an early stage, requesting such consideration. The letter is to be accompanied by a copy of the scheme/programme terms and conditions, the claim form or return requiring certification and a list of potential claimant local government bodies and the amount claimable by each. The Chief Local Government Auditor requires a period of no less than twenty working days to respond to the grant-paying body. The Chief Local Government Auditor will not agree to certification unless his/her formal agreement to do so has been secured in accordance with this statement.

8. The Chief Local Government Auditor has considered what it is appropriate, practically and professionally, to expect from the certification process, 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.

9. The Chief Local Government Auditor has produced these written Certification Instructions which must be followed when undertaking certification work. The certificate included on each claim or return requires the Chief Local Government Auditor to apply all of the tests in the Certification Instructions.

10. In applying his/her Certification Instructions under Article 25 of the Order, the Chief Local Government Auditor:

- a) may do so only at the request of local government bodies in respect of categories of claims and returns where he/she has agreed with a grant-paying body to undertake certification work;
- b) is not subject to direction by grant-paying bodies; and
- c) shall be paid for the services provided.

11. Certification work using Certification Instructions is not an audit but a different form of assurance engagement designed to provide a 'limited assurance' conclusion. This conclusion will normally state that "nothing has come to the auditor's attention to indicate that claims and returns are not fairly stated and are not in accordance with specified terms and conditions". International Standards on Auditing (UK and Ireland (ISAs), Practice Note 10 (Revised) and the Chief Local Government Auditor's Code of Audit Practice do not apply to certification work. Some terminology appropriate to an audit is not appropriate to certification work, in particular:

- (a) 'audit' is appropriate to accounts; 'certification' or 'auditor certification', (not 'audit certification') is appropriate to claims and returns;

- (b) the auditor expresses an 'opinion' on accounts but reaches a 'conclusion' on claims and returns;
- (c) in giving an 'opinion' on accounts, the auditor certifies that the audit has been completed in accordance with statutory requirements and may 'report' on matters the auditor considers to be in the public interest. In certifying claims or returns, the auditor is to reach a 'conclusion' - for example, that nothing has come to the auditor's attention to indicate that the claim or return is not fairly stated and not in accordance with the relevant terms and conditions, except for matters raised in a 'qualification letter';
- (d) the auditor's responsibility to consider issues 'material' to the audit of the accounts is replaced by a duty to direct work to those matters which, subject to compliance with full Certification Instruction requirements, in the auditor's view might have a 'significant' effect on the claim or return.

12. The purpose of Certification Instructions is:

- (a) to set out the procedures to be applied in the examination of a claim or return;
- (b) to leave grant-paying bodies in no doubt as to the nature of the certification work undertaken by the Chief Local Government Auditor before his/her certificate is issued.

13. The Chief Local Government Auditor's approach to certification work is 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:

(a) For claims and returns below a de minimis amount set by the Chief Local Government Auditor, the Chief Local Government Auditor will not apply his/her certification instructions, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions. The current de minimis set by the Chief Local Government Auditor is **£100,000**. Consequently the Chief Local Government Auditor will not normally certify claims or returns below the de minimis amount.

(b) For claims and returns over the de minimis, the Chief Local Government Auditor will assess the risks associated with the preparation of the claim or return, use his/her assessment of these risks to inform decisions on the level of testing (sample sizes) required and undertake all of the tests in the Certification Instructions.

14. The Chief Local Government Auditor will only certify claims and returns in accordance with the arrangements set out at paragraphs 5 to 13 above.

15. The Chief Local Government Auditor is required:

- a) to review the information contained within the claim or return and to express a limited assurance conclusion on the claim or return. He/ She concludes that nothing has come to their attention to indicate that the claim or return is not fairly stated and not in accordance with the relevant terms and conditions.

- b) to examine the claim or return and related accounts and records of the local government body in accordance with the Certification Instructions. In carrying out his/her work, the Chief Local Government Auditor will obtain such evidence and explanations from the local government body as the Chief Local Government Auditor considers necessary to form a conclusion. The level of testing undertaken is a matter of professional judgment according to the particular circumstances of the local government body and the claim or return as well as the Chief Local Government Auditor's assessment of risk.
 - c) to comply with the Certification Instructions and where testing is required, to direct work to those matters that, in the Chief Local Government 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 Chief Local Government Auditor acts as a professional accountant and not a legal expert;
 - d) to plan and complete his/her work in a timely fashion so that deadlines are met; and
 - e) to complete the Chief Local Government Auditor's certificate, qualified as necessary, in accordance with the Certification Instructions and to provide local government bodies with copies of certified claims and returns, and qualification letters for information. The Chief Local Government Auditor's certificate and qualification letter are provided for the use of the grant-paying body and the local government body. The Chief Local Government Auditor 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 Northern Ireland Audit Office, or other auditor of a grant-paying body, may use the local government auditor's certificate and qualification letter in connection with the audit of the grant-paying body.
16. Because of the inherent limitations of any control structure, errors or irregularities including fraud may occur and not be detected. Accordingly, the Chief Local Government Auditor's responsibility in respect of claims or returns is to express a conclusion, on the basis of appropriate and sufficient evidence.
17. In particular, these arrangements do not place on the Chief Local Government Auditor a responsibility to either:
- (a) identify every error in a claim or return; or
 - (b) maximise the local government body's entitlement to income under it.

Therefore the Chief Local Government Auditor does 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.

Preparation and availability of Chief Local Government Auditor's Certification Instructions for Claims and Returns

18. The Chief Local Government Auditor is responsible for drafting his/her Certification Instructions for claims and returns and responding to queries on the application of them. The Certification Instructions will be amended as and when necessary to reflect the development of best practice.
19. The Certification Instructions (Chief Local Government Auditor's Claims and Returns

Certification Instructions) are available from <http://www.niauditoffice.gov.uk>.

20. The Certification Instructions are prepared by the Chief Local Government Auditor for his/her use only in accordance with the arrangements made under Article 25 of the Order. The Chief Local Government Auditor accepts no responsibility for their use other than by him/her.

Fees for certification work

21. Every local government body for whom the Chief Local Government Auditor has undertaken certification work shall pay to the Comptroller and Auditor General for Northern Ireland such fees as the Department of the Environment may determine are appropriate to cover the full cost of providing those services.

APPROACH TO CERTIFICATION WORK

22. This section sets out the approach to certification work under the following headings:

- (a) planning and control;
- (b) integration with and reliance on other work (including internal audit);
- (c) certification arrangements;
- (d) the risk and testing assessment;
- (e) sample sizes, sampling and additional work;
- (f) supporting accounting records and audit working papers; and
- (g) claims and returns requiring assistance from another body.

Planning and control

23. For those claims where the Chief Local Government Auditor has agreed to perform certification, auditors should agree with the local government body the claims and returns which are expected, their expected value and a timetable for their preparation and certification. Auditors should plan to undertake and complete their work in timely fashion so that certification deadlines are met. Auditors should not seek extensions to certification deadlines from grant-paying bodies; requests for extensions may only be made by local government bodies who will suffer the consequences of late certification. The timetable should take account of:

- (a) the dates of audit visits;
- (b) the time needed to carry out the required Certification Instructions tests and for review of the work before certification;
- (c) additional work which either the local government body or auditor may need to do in the light of initial findings; and
- (d) the certification deadlines fixed by grant-paying bodies.

Claims routed to the Chief Local Government Auditor via grant-paying bodies

24. The Chief Local Government Auditor's preferred policy is to receive claims and returns direct from local government bodies and not routed via grant-paying bodies. In practice, most grant-paying bodies have arranged for direct routing. Routing via grant-paying bodies can lead to delays in claims or returns being available to the Chief Local Government Auditor.

Integration with and reliance on other work

Integration with systems, final accounts and fraud and corruption work

25. Work on claims and returns that could significantly affect the accounts needs to be co-ordinated with final accounts work. Where reliance on systems, final accounts or fraud and corruption work carried out during the audit is appropriate, this should be evidenced by appropriate cross-referencing, and vice versa for certification work. Work should not be duplicated.

Reliance on internal audit work

26. Appropriate use should be made of relevant internal audit work. This may be work carried out by internal audit as part of the normal programme or may be work specifically related to claims and returns agreed with the auditor. When using internal audit work auditors must:

- (a) consider the extent to which internal audit work specifically covers the individual tests required by the Certification Instructions;
- (b) consider the certification implications of any internal audit recommendations;
- (c) review internal audit work, including an element of re-performance, and evaluate the results. The extent of re-performance required will be influenced by the auditor's judgment of the adequacy and quality of internal audit generally. An element of re-performance for certification purposes is required because:
 - (i) the audit certificate confirms that the tests have been performed; and
 - (ii) the grant-paying bodies expect that the verification of claims and subsidies form entries, on which grant entitlement depends, is independently carried out;
- (d) determine whether any further action or additional testing is required in those areas where the work of internal audit is to be used; and
- (e) make clear cross-references in certification working papers to the internal audit work used.

27. Where it is agreed that internal audit will carry out work specifically related to a claim or return, internal audit must be supplied with copies of the Certification Instructions to ensure Certification Instruction requirements are covered. However, responsibility for certifying the claim or return must remain with the external auditor hence:

- (a) the Chief Local Government Auditor's standard documentation should be completed by the internal auditor, in particular the control environment and testing assessment (where applicable), the tests schedule and certification checklist;
- (b) the auditor should provide appropriate levels of direction and review; and
- (c) the auditor must determine
 - (i) the levels of testing (paragraphs 28 to 38 below) and any additional work (paragraph 39) needed; and
 - (ii) the extent of re-performance of internal audit work necessary.

Certification arrangements

28. The certification arrangements made by the Chief Local Government Auditor are summarised in paragraphs 5 to 17 above. The certification work required will vary according to the value of the claim or return in terms of the total amount claimed or reported (not the grant allocation, total eligible expenditure or balance of grant payable). For projects, the financial limits relate to the amount claimable over the lifetime of the project. Where annual certification for projects is required, the certification work required will be dictated by the amount expected to be claimed over the lifetime of the project. For example, a three year project with consecutive annual claims of £20,000, £35,000 and £50,000 is to be treated in

each of the three years as a claim or return over the threshold.

Claims and returns below the de minimis amount set by the Chief Local Government Auditor (currently £100,000)

29. Claims and returns below the de minimis amount set by the Chief Local Government Auditor (currently £100,000) are not to be certified, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions. Any claims or returns received by the Chief Local Government Auditor for less than £100,000 should be returned to the local government body.

Claims and returns over the de minimis amount set by the Chief Local Government Auditor (currently £100,000)

30. For claims and returns over the de minimis amount, auditors will assess the risks and control environment for the preparation of the claim or return and complete a testing assessment to determine the level of substantive testing that they will undertake. Auditors must undertake all of the tests in the certification instructions and use their assessment of risks and the control environment to inform decisions on the level of testing (sample sizes) required.

The risk and testing assessment

31. Claim (or return) completion risks, the control environment to manage them and the reliance which can be placed on other work are to be assessed using the risk and testing assessment form included as Appendix 2 of the Certification Instructions. The assessment form must be completed by the auditor and reviewed before detailed certification work is carried out.

32. Completion of the risks and testing assessment form (Appendix 2) requires the auditor:

- (a) to record (in Part 1 of Appendix 2) the auditor's assessment of the degree of risk attached to the particular claim or return including, for example, the volume and type of transactions included and the complexity of the scheme. This assessment provides a starting point for assessing (in Part 3), the relative importance of the various elements of the control environment for the preparation of the claim or return, which will vary on a case by case basis;
- (b) to note briefly (in Part 2 of Appendix 2) the method of compilation of the claim or return including, for ongoing schemes, any changes from the previous period;
- (c) to assess (in Part 3 of Appendix 2) the control environment for the preparation of the claim or return and to decide whether or not to place reliance on it for certification purposes.

Part 3 of the risks and testing assessment form is to be completed using existing cumulative auditor knowledge and does not require the auditor to undertake significant additional work. Where the auditor does not already have sufficient information to complete the assessment they should conclude that reliance cannot be placed on the control environment when deciding upon sample sizes.

Part 3 of the risks and testing assessment form indicates the factors auditors may consider in assessing each part of the control environment but this is guidance not a definitive or exhaustive list or a checklist. The relative importance of the various elements of Part 3 will vary on a case by case basis. Where gaps or weaknesses are identified auditors should consider their significance in relation to the particular claim or return and any balancing or compensating

controls or procedures. Parts 3(b) and 3(c) include references to internal audit work: an overview of any relevant internal audit work is required at this stage, where reliance is to be placed on internal work to satisfy Claims and Returns tests this is to be documented in Part 5(b) of the form.

At the end of Part 3 of the risk and testing assessment the auditor is required, to reach an overall conclusion about the control environment and to document this. In reaching this overall judgment, auditors will need to balance the relative importance of the various elements of Part 3 and consider the complete picture for the particular claim or return taking into account whether weaknesses in one or more areas are compensated for in other areas;

- (d) to undertake analytical review (in part 4)

Part 4 of the assessment requires the auditor to summarise the findings from analytical review. The comparison of expected with actual outcomes, the identification of unexpected variances and their subsequent investigation, explanation and corroboration is useful at the planning stage to identify areas of risk and influence decisions as to the level of testing necessary. If possible, comparisons should be made with other local government bodies or national statistics and not merely with estimates or the previous period; the risk of consistent over or under-claiming by the local government body should not be overlooked. Analytical review alone is not sufficient to satisfy the Certification Instructions, but in the context of certification work, is a tool to identify those entries where more extensive investigation is called for. The auditor can make appropriate use of analytical review carried out by the local government body or internal audit;

- (e) to record (in Part 5 of Appendix 2) the extent and adequacy of other relevant work by either the auditor or internal audit. Where use is made of systems audit work or internal audit work, reliance may only be placed on the review and testing of the system for the accounting period covered by the claim; and
- (f) finally, in the light of Parts 1 to 5 of the risk and testing assessment, to decide upon and document (in Part 6 of Appendix 2) the level of testing (sample sizes) required. Auditors should focus attention on large figures, figures that differ substantially from previous claims and returns and, in the first period, those entries that once approved will continue to have effect without further examination in future. Auditors are not expected to perform detailed tests to the extent that would be necessary to disclose all errors. Due regard should also be had to the possibility that small or nil entries and figures similar to previous years may be understated and to any multiplier effect or formula consequences of entries. Further guidance on sample sizes, sampling and additional work is provided in the next section.

Sample sizes, sampling and additional work

Sample sizes

33. The sample sizes (level of testing) for standard tests can vary between authorities, types of claim and return, and entries within them, depending on:

- (a) the risk of error, fraud or other irregularity arising;
- (b) the use which may be made of other relevant internal and external auditor work; and
- (c) the results of analytical review.

Sampling

34. Auditors should note that a reasonable level of assurance required for certification of claims and returns requires sample sizes for tests to be determined in relation to the claim or return itself and not in relation to the accounts as a whole.

35. In selecting samples, the sampling methodology should be determined by the auditor using professional judgment. When sample sizes have been determined, audit working papers should indicate how the sample has been selected.

36. When errors, defects or uncertainties are disclosed in the course of applying sample checks, auditors must determine whether they are typical of the population or isolated examples found by chance. Auditors need to draw conclusions from test findings; it is not acceptable to advise grant-paying bodies of findings without an indication of their significance. Auditors must satisfy themselves that apparently insignificant or isolated errors which come to light are not indicative of widespread errors in the population, undertaking additional testing and action as necessary. Isolated errors call for a simple amendment to the claim; more general errors call for extrapolation of findings indicating the level by which the claim is misstated leading to amendment or qualification as appropriate; widespread errors may question the validity of the claim.

37. When more extensive testing is necessary, its purpose is to identify the extent or significance of the preliminary findings and hence:

- (a) it should concentrate only on the error found; a number of tests may be applied to the initial sample but further application is needed only of those tests which identified errors;
- (b) it should be biased to identify the significance of those preliminary findings and hence not necessarily be made on a random basis as with the initial sample. For example, an error made by an individual or an area office might call for further random samples of the work of that individual or office;
- (c) it will usually be necessary to call for a much larger second sample and a decision is needed as to whether the problem should be referred immediately to the local government body for checking and rectification by them, followed by review by the auditor and testing of the local government body's corrective action, or whether the auditor alone should test a larger sample. Rechecking and corrective action by the local government body before further auditor testing is likely to be the more cost-effective option, particularly so where the time for rechecking is likely to be significant; and
- (d) in some situations, for example, in the case of missing documentation, two-step sampling may be appropriate, with the auditor calling for a much larger sample but only testing a proportion of it.

For example, if the auditor wishes to ensure that there are five case files with valid documentation and takes an initial sample of five and:

- (i) all five files are produced but the documentation on all but one of them is satisfactory. In this case a further sample might be requested and tested as to documentation to determine whether the initial finding on documentation is indicative of the population.
- (ii) all but one of the files can be found and the documentation on each of the files is satisfactory. In this case a further much larger sample of, say, 25 files might be requested but no testing of the documentation would be

necessary. Instead auditor effort would be being directed solely to ascertaining whether the 25 files could or could not be produced and hence whether the initial finding as regards missing files is indicative of the population.

- (iii) all but one of the files can be found and the documentation on only three of the four is satisfactory. In this case a further much larger sample of, say, 25 files might be requested, indicating whether the 25 could or could not be produced and hence increasing confidence as to whether the initial finding as regards missing files is indicative of the population. Of the 25 files produced, a proportion might then be tested as to documentation to increase confidence whether the initial finding of unsatisfactory documentation is indicative of the population.

38. The grant-paying body should take action on the Chief Local Government Auditor's findings, but where these are unclear may have no alternative but to require further work by the local government body and/or the Chief Local Government Auditor. If the local government body fails to address such requirements or to collaborate with the Chief Local Government Auditor to enable the necessary work to be completed in a timely manner, the Chief Local Government Auditor should set out the facts in a qualification letter.

Additional work

39. The need to carry out work in addition to that specified in the Certification Instructions may be apparent before detailed testing commences and be reflected in the testing assessment; or may arise in the course of carrying out the prescribed Certification Instructions. For example:

- (a) auditors might be aware that additional grant conditions had been applied by the grant-paying body to a particular local government body which fall outside the scope of the Certification Instructions tests; or
- (b) unusual or unexpected issues noted in the course of applying Certification Instructions tests could suggest that further investigation is necessary to confirm the validity of entries made.

Auditors will need to consider the potential risks arising from this knowledge and devise and conduct appropriate tests to cover them.

Supporting accounting records and audit working papers

Supporting accounting records

40. The chief financial officer of a local government body is responsible for ensuring that supporting accounting records show the local government body'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. The attention of local government bodies where there is scope for improvement in supporting records should be drawn to this statutory requirement.

41. Ideally local government bodies will retain prime documents until at least such time as the claim certification is completed and entitlement to grant settled by the grant-paying body. Where a local government body does not preserve supporting original prime documents, it must maintain substitute records, for example computer imaged or microfilmed which it certifies are accurate and complete.

Audit working papers

42. The tests schedule incorporated in the Certification Instructions should be used to evidence the performance of tests. The last standard test requires the Chief Local Government Auditor to complete the conclusion section of the certification checklist, (Appendix 4) confirming that the tests have been carried out and whether amendments and/or a qualification letter is necessary.

43. The certification checklist should demonstrate that:

- (a) certification work has been performed, evidenced and reviewed;
- (b) points arising have been dealt with appropriately;
- (c) guidance on issuing qualification letters has been followed; and
- (d) administrative requirements have been met.

44. Working papers should be kept to support the Chief Local Government Auditor's certificate and the charge made to the local government body. They should be retained for a period of ten years from the date the Chief Local Government Auditor's certificate is given. They should include the following:

- (a) copy of the claim or return as certified by the Chief Local Government Auditor and its covering form, together with any qualification letter(s);
- (b) working copy of the claim or return, and completed Appendix 2 control environment and testing assessment (where applicable), Appendix 3 standard tests schedule and Appendix 4 certification checklist, evidencing performance and review of required work; and
- (c) cross references to other auditor files/work on which reliance has been placed.

45. Where a test is not applicable, the working papers should explain why this is the case; tests are not 'not applicable' simply because the entry is nil, the reason for the nil entry should be noted. Particular care is needed in the case of nil entries in relation to income or recoupment that may overstate the local government body's entitlement. Where a test is applicable but cannot be applied, for example, because of the absence of records, the facts must be set out in a qualification letter.

46. Where possible, use should be made of papers already provided for other auditor work, and in the case of papers provided by the local government body, the auditor should test them. Close liaison with local government bodies to ensure that their working papers are in a helpful form for the auditor will both assist the auditor and reduce certification time and cost to the local government body. A list of papers which local government bodies might produce appears at Appendix 5.

Claims & returns requiring assurance from another body

47. Occasions arise when claims or returns include transactions for which the supporting information is held by another body. This is an increasingly common situation:

- (a) with the contracting out of operational procedures such as payroll; and
- (b) with the introduction of partnership arrangements where one body (the lead body) submits a claim or return to the grant-paying body on behalf of the partnership, based on the transactions of partners which may be other local government bodies, public bodies, private sector companies or voluntary

organisations.

48. In such circumstances, in order to complete and certify the claim or return to the grant-paying body, the lead body will need assurance that partners' transactions have been incurred and are eligible for grant. The lead body might obtain such assurance by, for example:

- (a) obtaining an independently certified statement for each contracted out procedure or for each partner, in sufficient detail to support the eligibility of transactions included in the claim or return; or
- (b) operating a payments monitoring system during the year, supplemented by a system of spot checks, which enables the lead body to test and confirm the eligibility of partners' transactions.

It is the lead body's responsibility to support the entries it wishes to include in the claim or return to be sent to the grant-paying body and to secure the necessary assurance from its partners before completing its own certificate on the claim or return. Accordingly, auditors are not expected to visit third parties in cases where insufficient information is held by the lead body to support entries on a claim or return, but the Chief Local Government Auditor must issue a qualification letter to the grant-paying body setting out the facts.

49. A partner local government body may, if agreed by the grant-paying body, ask the Chief Local Government Auditor to certify a claim or return to its lead body confirming that the local government body's transactions have been incurred and are eligible for grant. The Chief Local Government Auditor will treat such requests for independently certified statements as falling within section 25 of the Order, provided:

- (a) the principal scheme requiring the lead body to submit a Chief Local Government Auditor certified statement to the grant-paying body is covered by the Certification Instructions. The Chief Local Government Auditor does not intend the arrangements set out in these paragraphs to be used to secure certification of claims and returns for which the Chief Local Government Auditor has either declined to make certification arrangements, or would decline to make arrangements if he/she were approached by the grant-paying body. The arrangements set out in these paragraphs should not be used to certify ad hoc claims and returns required directly by grant-paying bodies: such cases should be referred directly to the Chief Local Government Auditor who will seek any clarification necessary from the grant-paying body and provide further advice to the Chief Local Government auditor;
- (b) the de minimis arrangement set out in the Statement of Responsibilities is applied. Claims and returns below the de minimis amount should not be certified;
- (c) the standard form of auditor's certificate is given (see Appendix 1: Statement of Responsibilities). At the auditor's discretion, the certificate should be completed by reference to the Certification Instructions; and
- (d) the claim or return has been appropriately certified by the local government body prior to Chief Local Government Auditor certification and the Chief Local Government Auditor's certificate provides no greater degree of assurance than has already been provided by the authority.

The Chief Local Government Auditor may decline to certify claims and returns to lead bodies where the nature or extent of the work required by the engagement is such that the Chief Local Government Auditor decides it is unreasonable for them to provide an auditor's certificate, for example, where the lead partner insists a claim is certified as correct or requires

CLGA's Claims & Returns Certification Instructions – June 2013

the Chief Local Government Auditor to certify that a partner's systems and procedures have operated effectively.

CERTIFICATION, AMENDMENTS AND QUALIFICATION LETTERS

Audit certificate

Prescribed form

50. The form of audit certificate to be given by the Chief Local Government Auditor is that outlined below and included with the Statement of Responsibilities (Appendix 1).

Certificate of the Chief Local Government Auditor to [Name of grant-paying body] [For claims and returns over the threshold only]

The Statement of Responsibilities of grant-paying bodies, local government bodies and the Chief Local Government Auditor in relation to claims and returns sets out the respective responsibilities of these parties, and the limitations of my responsibilities as the Chief Local Government Auditor.

I have examined the entries in this form (which replaces or amends the original submitted to me by the local government body dated _____)* and the related accounts and records of the local government body in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions.

I have assessed the risks associated with the preparation of this claim or return in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and, on the basis of my assessment, carried out the tests in the Chief Local Government Auditor's Claims and Returns Certification Instructions and obtained such evidence and explanations as I consider necessary. I did not perform tests to the extent that would be necessary to disclose all errors and my certificate should not be relied upon to disclose all such matters.

(Except for the matters raised in the attached qualification letter dated _____)*
I have concluded that nothing material has come to my attention during the course of my certification work to indicate that the claim or return is:

- not fairly stated; and
- not in accordance with the relevant terms and conditions.

Signature _____ Name (block capitals) _____
Date _____ Chief Local Government Auditor

**Delete as necessary*

Completion of local government auditor certificate

51. The certificate requires the deletion those parts of it which do not apply (indicated by * in the example certificate above) and obliges the Chief Local Government Auditor to reach a 'negative assurance' conclusion on the claim or return.

52. The Chief Local Government Auditor's certificate may be completed:

(a) without qualification

Where the Certification Instructions have been completed and in the Chief Local Government Auditor's professional judgment there is no evidence to indicate that the claim or return is not fairly stated or not in accordance with the relevant terms and conditions:

the words '(which replaces or amends the original submitted to me by the authority dated)' should be deleted; and

the words 'Except for the matters raised in the attached qualification letter dated' should be deleted; and

the certificate should be signed and dated by the Chief Local Government Auditor.

(b) without qualification but with agreed amendments incorporated by the authority

Where the Certification Instructions tests have been completed and in the Chief Local Government Auditor's professional judgment the claim or return, after amendment or replacement by the local government body (paragraphs 54 to 56 below), is, as appropriate, either in accordance with the underlying records or fairly stated and in accordance with the relevant terms and conditions:

the date of the original form should be inserted; and

the words 'Except for the matters raised in the attached qualification letter dated' should be deleted; and

the certificate should be signed and dated by the Chief Local Government Auditor.

A qualification letter is not required.

(c) with qualification letter (with or without agreed amendments incorporated by the authority)

Where a qualification letter is required the guidance in paragraphs 56 to 61 should be followed.

Where the Certification Instructions tests have been completed and in the Chief Local Government Auditor's professional judgment the claim or return (or its amendment or replacement, paragraphs 53 to 55 below) is not fairly stated, or not in accordance with the relevant terms and conditions:

(i) if the form is un-amended:

the words '(which replaces or amends the original submitted to me by the local government body dated)' should be deleted

- (ii) if the form has been amended or replaced:

the date of the original form should be inserted; and

a reference to the amendment should be included in the qualification letter, for example, 'This claim/return incorporates amendments/replaces that were submitted previously. I also draw your attention to.....'

- (iii) the date should be entered in the qualification letter; and
- (iv) the certificate should be signed and dated by the Chief Local Government Auditor.

Where either amendment or qualification letter are necessary the guidance in the following paragraphs must be followed.

Local government body amendments

53. When the Certification Instructions tests disclose errors and the local government body agrees that amendment of the claim or return is necessary, the Chief Local Government Auditor should return it to the local government body for amendment or replacement. Agreed amendments must be made by the local government body, not the Chief Local Government Auditor. The original local government body signatory should initial all amendments made and re-sign and re-date the local government body's certificate, also ensuring that any balance on the re-certified claim or return shows the correct balance due to or from the grant-paying body at the date of local government body's recertification. Any initialling requirements specific to the scheme must be observed. Alternatively, the local government body may prepare a replacement claim or return. Amendments should be made regardless of the size of the adjustment required.

54. The amendment procedure is appropriate where the Chief Local Government Auditor concludes the errors are isolated cases or has extrapolated findings and is satisfied that after amendment there is no other evidence to indicate that the entry/entries is/are not fairly stated or not in accordance with the terms and conditions. A qualification letter is not required. The amendment process is intended to save the time of all parties concerned and in particular to avoid the need for further correspondence between the grant-paying body and the local government body leading invariably to a requirement for extrapolation.

55. Auditors must consider whether errors disclosed point to the possibility of mistakes in certified claims or returns for previous periods, and investigate as necessary. Where mistakes in certified claims or returns for previous periods are identified, a total amendment to the claim or return for the current period will not normally suffice. Grant-paying bodies expect to see an analysis by period in at least as much detail as was originally provided in the claims or returns for earlier periods. A qualification letter on the current claim or return should be sent, setting out the facts relating to the earlier periods.

Chief Local Government Auditor qualification letters

56. A certified claim or return, taken with the Chief Local Government Auditor's qualification letter, should enable the grant-paying body to process it after making adjustments or pursuing disputes directly with the local government body. It follows that letters should be drafted with the recipient in mind and it should:

- (a) draw attention only to matters which prevent the certificate being given without qualification; and
- (b) avoid explanation of local government body claim or return form entries which are, as appropriate, either in accordance with the underlying records or fairly stated and in accordance with the terms and conditions.

In exceptional circumstances the qualification letter can be a disclaimer saying that the Chief Local Government Auditor is unable to reach a conclusion.

57. Any communication from the Chief Local Government Auditor which accompanies a certified claim or return is a qualification letter and must be referred to in the Chief Local Government Auditor's certificate, and claims and returns covering sheet, to ensure that it is brought to the attention of the grant-paying body and local government body.

58. The format and content of qualification letters should be in accordance with the guidance below. To avoid the need for a letter, or to enable a less critical letter to be issued, the timetable should afford the opportunity for the local government body to take remedial action or the auditors to carry out additional work before any certification deadline. Other than in exceptional circumstances, it is not acceptable to issue a qualification letter solely because the work cannot be completed before the audit certification deadline.

59. Qualification letters should:

- (a) be addressed to the appropriate grant-paying body and refer to:
 - (i) the name of the local government body ;
 - (ii) the claim or return; and
 - (iii) the certificate to which they relate;(e.g. 'XYZ council's 2012/13 claim for ABC grant: qualification letter referred to in Chief Local Government Auditor certificate dated 5 December 2013')
- (b) set out the facts, including the reasons for concern and any matters in dispute;
- (c) quantify the effects of the subject of the qualification letter where possible. Where agreed amendments have not been made, sample sizes and the error rate disclosed, the monetary value of errors found and their extrapolated value help the grant-paying body reach a view on whether and by how much it should seek to adjust a claim or return;
- (d) where quantification is not possible, set out the facts for the grant-paying body's consideration including an indication of the extent of uncertainty and the reasonableness of estimates or assumptions made by the local government body;

- (e) be specific whether matters and/or amounts referred to in the letter are included in or excluded from the certified claim or return;
 - (f) where there is uncertainty, make clear whether adjustments which appear to be called for are in dispute or have been agreed by the local government body and set out the facts behind any disputed figures;
 - (g) when entries cannot be verified, for example, because of missing records, explain the basis for the entries made and comment on their reasonableness;
 - (h) when advising that the local government body has not followed the scheme exactly, indicate whether the underlying objectives of the scheme have been met; and
 - (i) where the facts disclose system weaknesses, indicate the local government body's progress towards eliminating them. Where a weakness set out in a qualification letter for a previous period has not or has only partly been addressed by the authority, state the facts in the letter on the current claim or return.
60. Pitfalls to avoid, apart from failure to observe the above guidance, are:
- (a) setting out facts but not stating the Chief Local Government Auditor's conclusion. For example, where the eligibility of expenditure for grant is uncertain, attention should be drawn to the uncertainty, not merely to inclusion of the expenditure in the claim;
 - (b) setting out test findings without drawing a conclusion (paragraph 36 above). For example, where audit testing identifies a missing invoice, it is not acceptable to simply advise that the invoice could not be found, leaving the grant-paying body wondering whether this is an isolated instance or indicative of a fundamental problem;
 - (c) providing insufficient detail to enable the grant-paying body to address the issue, for example, by failing to specify which approvals for schemes could not be found;
 - (d) issuing a qualification letter unnecessarily, for example:
 - (i) where a manual exercise was necessary to complete a claim or return because of software failure and the manual exercise adequately provided the information required;
 - (ii) where accounts for the relevant financial year are still open, except where there is a potential effect on the claim or return, which should be quantified in a qualification letter;
 - (iii) where straightforward or extrapolated amendments have been agreed with and made by the local government body ;
 - (e) seeking to amend or repeat the wording of the audit certificate; and

- (f) using terminology inconsistent with the audit certificate or Statement of Responsibilities, for example, concluding that a claim or return or an entry is 'correct' or 'reasonable', or referring to an 'audited' claim.

Supplementary qualification letters

61. Where exceptionally the Chief Local Government Auditor needs to communicate with the grant-paying body on a claim or return but cannot refer to this in the audit certificate, for example, where a certified claim is with the grant-paying body, the communication should be treated as a qualification letter and be sent to the grant-paying body with a Covering Letter, with a copy being sent simultaneously to the local government body (qualification letter only).

ISSUE OF CERTIFIED CLAIMS AND RETURNS

62. Certified claims and returns are to be issued only to the address of the grant-paying body.

63. After certification, claims and returns are to be sent by the Chief Local Government Auditor with a Covering Letter direct to the grant-paying body. The Covering Letter should readily identify its enclosures; it should therefore appear in front of the claim or return and any accompanying qualification letter. A Covering letter should also be used for supplementary qualification letters not accompanying a claim or return (paragraph 61 above).

64. An original Covering Letter provides assurance to the grant-paying body that a certified claim or return has been received from the Chief Local Government Auditor, not the local government body. The Chief Local Government Auditor must therefore not return certified claims and returns to a local government body to send on to the grant-paying body.

65. The certification checklist at Appendix 4 of the Certification Instructions serves to ensure that each certified claim or return is issued, appropriate records are maintained and the local government body is advised of Chief Local Government Auditor's findings. The essential requirements are that:

- (a) the claim or return (and any qualification letter) is issued promptly in accordance with paragraphs 62 to 64 above;
- (b) the audit file retains a copy of the certified claim or return (and any qualification letter) and its Covering Letter as issued; and
- (c) a copy of the claim or return (and any qualification letter) is provided to the local government body for information. In exceptional circumstances such as suspected fraud or corruption when it would appear to be inappropriate to copy a letter to a local government body, the Chief Local Government Auditor will decide on an appropriate course of action.

QUERIES FROM GRANT-PAYING BODIES

Before certification

66. Where a grant-paying body carries out a preliminary check on a claim or return prior to referring it to the Chief Local Government Auditor, it may be accompanied by queries and comments directing attention to entries that are inconsistent or unusual. Such matters should be considered and dealt with by the Chief Local Government Auditor as appropriate. However, it is not part of a Chief Local Government Auditor's responsibility to provide grant-paying bodies with additional information not required by the form or conditions of the scheme, and which the grant-paying body should obtain by direct enquiry of the local government body.

After certification

67. All queries from grant-paying bodies on certified claims and returns to be referred in the first instance to the local government body. Queries may however require referral to the Chief Local Government Auditor. All queries should be dealt with promptly. The resolution of a query, irrespective of whether it was received by the local government body or the Chief Local Government Auditor, should be sent direct to the relevant grant-paying body and all procedures applicable to the handling and recording of a normal claim or return followed. Where the query requires revised information to be certified by the Chief Local Government Auditor, it will often suffice to affix the audit certificate (included in the

CLGA's Claims & Returns Certification Instructions – June 2013
Statement of Responsibilities at Appendix 1) referring to the revised information and submit it with the Covering Letter. Where amendments are made to a previously certified claim or return, the date of the Chief Local Government Auditor's certificate should be amended and initialled. When a supplementary qualification letter is issued alone, the procedure in paragraph 61 above must be followed.

MISSING & OVERDUE CLAIMS AND RETURNS

Prompt submission

68. It is in the interest of all concerned that claims and returns are completed promptly and it is the Chief Local Government Auditor's responsibility to encourage their early submission and to ensure that certified claims and returns reach the appropriate grant-paying body by the prescribed deadline. Grant-paying bodies should approach local government bodies, not the Chief Local Government Auditor, when a claim or return is overdue.

Overdue claims

69. Where grant-paying bodies have published deadlines by which certified claims and returns are to reach them they will advise the Chief Local Government Auditor of those which are overdue.

70. Where it is evident to the Chief Local Government Auditor that a certified claim or return has gone astray in transit to the grant-paying body, the Chief Local Government Auditor should send a photocopy to the grant-paying body under cover of an original Covering Letter. The certified claim or return should be clearly marked 'copy', to avoid any possibility of duplicate processing by the grant-paying body if the original claim or return subsequently comes to light.

RESTRICTIONS ON DISCLOSURE

71. The disclosure of Chief Local Government Auditor certificates and qualification letters by the Chief Local Government Auditor is restricted. The Chief Local Government Auditor is to send copies to the grant-paying body and the local government body. Specific reference is made in the Statement of Responsibilities to the auditors of grant-paying bodies, principally the Northern Ireland Audit Office and European Court of Auditors, who may use certificates and qualification letters in connection with the audit of the grant-paying body. Outside of this, the Chief Local Government Auditor may disclose certificates and qualification letters only to third parties with a statutory right of access to them, for example, the police.

STATEMENT OF RESPONSIBILITIES OF GRANT-PAYING BODIES, LOCAL GOVERNMENT BODIES AND THE CHIEF LOCAL GOVERNMENT AUDITOR IN RELATION TO CLAIMS AND RETURNS

This statement of responsibilities (the statement) highlights the different responsibilities of grant-paying bodies, local government bodies and the Chief Local Government Auditor in relation to claims and returns. Article 25 of the Local Government (Northern Ireland) Order 2005 (the Order) requires the Chief Local Government Auditor to make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Northern Ireland department or public body to a local government body.

Introduction

1. Grant-paying bodies may require certification by an appropriately qualified and independent accountant of local government bodies' claims for grant or subsidy, and of other returns of financial information. Certification is one option for providing assurance as to the basis of a local government body's entitlement to grant or subsidy or, in the case of a return, as to the information provided. Grant-paying bodies, local government bodies and the Chief Local Government Auditor 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 Chief Local Government Auditor will apply his/her certification instructions and to assist grant-paying bodies and local government bodies by summarising their respective responsibilities and explaining where those different responsibilities begin and end.
3. Throughout this statement:
 - **'grant-paying bodies'** includes government departments and agencies, public authorities and the European Commission directorates and its agents requiring the completion of claims and returns;
 - **'local government bodies'** means all local government bodies whose auditors are designated local government auditors under Article 4 of the Order, which have requested the certification of claims and returns under Article 25 of the Order;
 - **'Chief Local Government Auditor'** is the local government auditor designated as Chief Local Government Auditor by the Department of the Environment, with the consent of the Comptroller and Auditor General for Northern Ireland in accordance with Article 4 of the Order;
 - **'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;
 - **'Certification Instructions'** are the written instructions from the Chief Local Government Auditor on the certification of claims and returns;

- **'certify'** means the addition by the Chief Local Government Auditor, of his/her certificate on a claim or return,;
- **'claims'** includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;
- **'limited assurance'** is where the Chief Local Government Auditor performs such procedures (as required by the Certification Instructions) as to obtain information and explanations which provide sufficient appropriate evidence for him/her to give a limited assurance conclusion. This conclusion would state that "nothing has come to the Chief Local Government Auditor's attention to indicate that claims and returns are not fairly stated and are not in accordance with specified terms and conditions". This is the normal form of assurance given under the Chief Local Government Auditor's arrangements;
- **'qualification'** arises where there is a matter of disagreement between the Chief Local Government Auditor and the receiving body- or an uncertainty arising from an inability to obtain sufficient appropriate audit evidence- as to the entries in the claim or return which determine entitlement. In these circumstances, the Chief Local Government Auditor's certificate will refer to an accompanying qualification letter which sets out the facts- as agreed by the Chief Local Government Auditor and the local government body– so that the grant-paying body may then determine actual entitlement;
- **'the Order'** is the Local Government (Northern Ireland) Order 2005;
- **'returns'** are normally:
 - 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 local government body's auditor, or under arrangements made by the Chief Local Government Auditor; and
- **'underlying records'** are the accounts, data and other working papers supporting entries on a claim or return.

Responsibilities of grant-paying bodies

4. 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 a local government body prepares its claim or return and gives its certificate; and
 - specifying appropriate local government body and auditor certification arrangements.
5. Grant-paying bodies are responsible for providing:
 - grant terms and conditions which:
 - are available in sufficient time to enable local government bodies 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 roles 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 local government bodies 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 a local government body's accounting year to 31 March, have completion deadlines which fit with the local government body's preparation of its accounts, and have auditor certification deadlines which enable the Chief Local Government Auditor to co-ordinate certification of claims or returns with the audit of the local government body's accounts where appropriate;
 - incorporate appropriate certificates by the local government body and, where required, the agreed normal form of certificate by the Chief Local Government Auditor (see paragraph 21). The local government body's certificate, which must be completed before the claim or return is passed to the auditor, must provide at least as much assurance as that required of the Chief Local Government Auditor, but may also provide assurance on areas not appropriate to the Chief Local Government Auditor's certificate; and
 - have a timetable for both their preparation and certification by the local government body, with appropriate retentions to encourage compliance.

6. Grant-paying bodies are responsible for specifying appropriate local government body and auditor certification requirements including who may give the local government body's certificate on the claim or return and which auditor may certify it (normally either any appropriately qualified independent accountant or the Chief Local Government Auditor).

Appropriate assurance should be taken by grant paying bodies from certificates given by chief financial 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. Chief Local Government 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.

7. If certification by the Chief Local Government Auditor is proposed, a grant-paying body must:

- engage in timely consultation in order to secure the Chief Local Government Auditor's formal agreement that the Chief Local Government Auditor will undertake certification work (see paragraph 16); and
- familiarise itself with the Chief Local Government Auditor's Certification Instructions (available from <http://www.niauditoffice.gov.uk>) that will be applied in carrying out the certification work.

8. 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.

Responsibilities of local government bodies

9. Local government bodies 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 13), before accepting it. Local government bodies are also responsible for exercising proper degrees of supervision and review of completed claims or returns before completing the local government body's certificates. The local government body's certificate on a claim or return must be completed before it is passed to the Chief Local Government Auditor for examination. The Chief Local Government Auditor will not certify claims or returns where the local government body's certificate has not been completed.

10. The chief financial officer of a local government body is responsible for ensuring that supporting accounting records are sufficient to show the local government body'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.

11. Local government bodies 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 financial officer of a local government body 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 assist the Chief Local Government Auditor and reduce certification time and, therefore, the cost to the local government body; and
- are subject to proper supervision and review prior to completion of the local government body's certificate so that the assurance given by the local government body 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 testing required.

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

13. Where claims or returns require auditor certification, local government bodies 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 Chief Local Government Auditor in accordance with the arrangements set out in this statement or to any accountant who is both independent and appropriately qualified. Where a local government body intends to ask the Chief Local Government Auditor to certify individual claims or returns it should, before it accepts the grant terms and conditions, confirm with the grant-paying body that the grant-paying body has secured the Chief Local Government Auditor's formal agreement to undertake certification work on the basis set out in this statement (see paragraph 16). Local government bodies should not assume that the Chief Local Government Auditor will automatically undertake certification work and/or provide certificates in the manner required by the grant-paying body. Where a local government body makes arrangements for claims or returns to be certified other than through the Chief Local Government Auditor 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.

Responsibilities of the Chief Local Government Auditor

14. Under Article 25 of the Local Government (Northern Ireland) Order 2005, the Chief Local Government Auditor shall, if required by local government bodies, make arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any grant-paying body to any local government body subject to audit under the Order.

15. Notwithstanding any desire by a grant-paying body or local government body to have claims or returns certified by the Chief Local Government Auditor, the Chief Local Government Auditor is entitled to exercise reasonable discretion in meeting statutory obligations. This

means he/she can make a judgement whether it is appropriate to undertake certification work in specific cases, having regard to the particular circumstances of a scheme or programme, the sums involved, the likely auditor workload and the likely costs of certification. In practice, this means that the Chief Local Government Auditor can decline to agree to undertake certification work where he/she deems it appropriate to do so.

16. The Chief Local Government Auditor requires grant-paying bodies to secure the Chief Local Government Auditor's formal agreement at scheme or programme level to undertake certification work before certification by the Chief Local Government Auditor is included as a condition of the scheme/programme. To this end, the Principal Finance Officer, or equivalent, of the grant-paying body is required to write to the Chief Local Government Auditor at an early stage, requesting such consideration. The letter is to be accompanied by a copy of the scheme/programme terms and conditions, the claim form or return requiring certification and a list of potential claimant local government bodies and the amount claimable by each. The Chief Local Government Auditor requires a period of no less than twenty working days to respond to the grant-paying body. The Chief Local Government Auditor will not agree to certification unless his/her formal agreement to do so has been secured in accordance with this statement.

17. For those claims where the Chief Local Government Auditor has agreed to perform certification, he/she is responsible for considering what it is appropriate, practically and professionally, to expect from the certification process, 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.

18. The Chief Local Government Auditor is responsible for producing written Certification Instructions (Chief Local Government Auditor's Claims and Returns Certification Instructions – available from <http://www.niauditoffice.gov.uk>) which must be followed when undertaking certification work. These provide guidance on the certification of claims and returns and explain the approach and procedures to be undertaken. The certificate included on each claim or return requires the Chief Local Government Auditor to apply all of the tests in the Certification Instructions. The form of the Chief Local Government Auditor's certificate to be given is set out in the Appendix to this statement.

19. The Chief Local Government Auditor is responsible for responding to queries on the application of the Claims and Returns Certification Instructions.

20. In applying his/her Certification Instructions, the Chief Local Government Auditor:

- may do so only at the request of local government bodies in respect of categories of claims and returns where he/she has agreed with a grant-paying body to undertake certification work;
- is not subject to direction by grant-paying bodies; and

- will ensure there shall be paid by every local government body, to the Comptroller and Auditor General for Northern Ireland, such fees as the Department of Environment may determine are appropriate to cover the full cost of certification.

21. Certification work using the Chief Local Government Auditor's Claims and Returns Certification Instructions is not an audit but a different form of assurance engagement designed to provide a 'limited assurance' conclusion. This conclusion will normally state that "nothing has come to the auditor's attention to indicate that claims and returns are not fairly stated and are not in accordance with specified terms and conditions". International Standards on Auditing (UK and Ireland)(ISAs), Practice Note 10 (Revised) and the Chief Local Government Auditor's *Code of Audit Practice* do not apply to certification work. The form of the Chief Local Government Auditor's certificate to be given is set out in Appendix 1 at the end of this statement.

22. The purpose of the Chief Local Government Auditor's Certification Instructions is:

- to set out the procedures to be applied in the examination of a claim or return;
- to leave grant-paying bodies in no doubt as to the nature of the certification work undertaken by the Chief Local Government Auditor before his/her certificate is issued.

23. The Chief Local Government Auditor's approach to certification work is 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 Chief Local Government Auditor, the Chief Local Government Auditor will not apply his/her Certification Instructions, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions. The current de minimis set by the Chief Local Government Auditor is **£100,000**. Consequently the Chief Local Government Auditor will not normally certify claims or returns below the de minimis amount.
- For claims and returns over the de minimis, the Chief Local Government Auditor will assess the risks associated with the preparation of the claim or return, use his/her assessment of these risks to inform decisions on the level of testing (sample sizes) required and undertake all of the tests in the Certification Instructions.

24. The Chief Local Government Auditor will only certify claims and returns in accordance with the arrangements set out at paragraphs 14 to 23 of this statement.

25. The Chief Local Government Auditor will:

- review the information contained within the claim or return to express a negative assurance conclusion on the claim or return.
- examine the claim or return and related accounts and records of the local government body in accordance with the Certification Instructions. In carrying out his/her work, the Chief Local Government Auditor will obtain such evidence and explanations from the local government body as the Chief Local Government Auditor considers necessary to form a conclusion. The level of testing undertaken is a matter of professional judgment according

to the particular circumstances of the local government body and the claim or return as well as the Chief Local Government Auditor's assessment of risk.

- comply with the Certification Instructions and where testing is required, direct work to those matters that, in the Chief Local Government 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 Chief Local Government Auditor acts as a professional accountant and not a legal expert;
- plan and complete his/her work in a timely fashion so that deadlines are met; and
- complete the Chief Local Government Auditor's certificate, qualified as necessary, in accordance with the Certification Instructions and to provide local government bodies with copies of certified claims and returns, and qualification letters for information. The Chief Local Government Auditor's certificate and qualification letter are provided for the use of the grant-paying body and the local government body. The Northern Ireland Audit Office, or other auditor of a grant-paying body, may use the Chief Local Government Auditor's certificate and qualification letter in connection with the audit of the grant-paying body. Outside of this, the Chief Local Government Auditor 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.

26. Because of the inherent limitations of any control structure, errors or irregularities, including fraud, may occur and not be detected. Accordingly, the Chief Local Government 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 the Certification Instructions.

27. In particular, these arrangements do not place on the Chief Local Government Auditor a responsibility to either:

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

Therefore the Chief Local Government Auditor does 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.

28. The Chief Local Government Auditor's certificate includes reference to this Statement of Responsibilities and to the Certification Instructions. The Chief Local Government Auditor will give a certificate in the form as prescribed in Appendix 1 to this statement.

Appendix1

Certificate of the Chief Local Government Auditor to [Name of grant-paying body] [For claims and returns over the threshold only]

The Statement of Responsibilities of grant-paying bodies, local government bodies and the Chief Local Government Auditor in relation to claims and returns sets out the respective responsibilities of these parties, and the limitations of my responsibilities as the Chief Local Government Auditor.

I have examined the entries in this form (which replaces or amends the original submitted to me by the local government body dated _____)* and the related accounts and records of the local government body in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions.

I have assessed the risks associated with the preparation of this claim or return in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and, on the basis of my assessment, carried out the tests in the Chief Local Government Auditor's Claims and Returns Certification Instructions and obtained such evidence and explanations as I consider necessary. I did not perform tests to the extent that would be necessary to disclose all errors and my certificate should not be relied upon to disclose all such matters.

(Except for the matters raised in the attached qualification letter dated _____)*

I have concluded that nothing material has come to my attention during the course of my certification work to indicate that the claim or return is:

- not fairly stated; and
- not in accordance with the relevant terms and conditions.

Signature _____ Name (block capitals) _____

Date _____ Chief Local Government Auditor

**Delete as necessary*

RISK AND TESTING ASSESSMENT (RATA)

(for claims and returns over the de minimis set by the Chief Local Government Auditor , currently £100,000)

To be completed in accordance with the guidance in the Certification Instructions and to be agreed with the reviewer

| | |
|--|-------------------|
| <p>1 Degree of risk attached to the claim or return</p> <p>This assessment provides a starting point for assessing (in Part 3), the relative importance of the various elements of the control environment for the preparation of the claim or return, which will vary on a case by case basis.</p> <p>Auditors should record (at a high level) the relative level of error/risk attached to the claim/return based on key factors (e.g. value of the claim, volume of transactions, complexity of the scheme etc). They should document key factors to support their conclusion.</p> | <p>wp ref</p> |
| <p>2 Compilation</p> <p>Note briefly the method of compilation including changes from the previous period. If spreadsheets or IT systems are involved, notes here will provide a further reference point for assessing:</p> <ul style="list-style-type: none"> • in part 3, the relative importance of aspects of the control environment; and • in part 5, for considering what reliance can be placed on other work, including that done by internal auditors. | <p>wp ref</p> |

| | |
|---|-----------|
| <p>3 Control environment Record the auditor's assessment of the control environment under sections (a) – (e) below.</p> <p>Auditors should clearly document</p> <p>(i) the work undertaken; (ii) its implications; and the assessed effectiveness of the controls and what reliance can be placed on them</p> | |
| <p>(a) Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions.</p> <p><i>A control environment upon which reliance can be placed is likely to include: evidence of grant terms and conditions being identified and reviewed and action taken at an early stage to collect the information that will be required to demonstrate entitlement to grant; comprehensive documentation; ongoing monitoring of compliance with terms and conditions; monitoring and compliance with deadlines.</i></p> | wp ref |
| <p>(b) Control arrangements, including internal financial control and internal audit.</p> <p><i>A control environment upon which reliance can be placed is likely to have: cost codes for each claim/return, with controls over data posted from other systems/journals and reconciliations that ensure transactions are properly authorised and coded; a coding structure tailored to the claim/return requirements; procedures to demonstrate funding passed to third parties has been used for the intended purpose; effective budgetary control and cash flow monitoring; for claims/returns based on complex financial systems, internal audit assurance that systems have operated satisfactorily over the period covered by the claim.</i></p> | wp ref |

| | |
|---|-------------------|
| <p>(c) Quality of authority's supporting working papers.</p> <p><i>A control environment upon which reliance can be placed is likely to have working papers that include: the date they were prepared and who prepared them; the claim/return entries to which they relate including cross references to or copies of source documents; copies of original approvals, variations and correspondence with the grant- paying body; a reconciliation of the claim/return to the accounts including payments on account; analytical review with explanations of significant variances; notes on the basis of any apportionments included; a description of relevant internal controls; a note of any relevant internal audit work; evidence to support expenditure included in the claim/return but incurred by another body.</i></p> | <p>wp ref</p> |
| <p>(d) Expertise and relevant knowledge of preparers, including the adequacy of supervision and review.</p> <p><i>A control environment upon which reliance can be placed is likely to have: claims/returns prepared by officers with appropriate expertise and knowledge of the scheme; pre-certification checks for arithmetic accuracy, completeness and reasonableness, including test checks to supporting records and review, by an officer not involved directly in the compilation process; evidence of the review process and the steps the local government body has taken to satisfy itself that the assurance provided by its certificate is well founded.</i></p> | <p>wp ref</p> |

| | |
|--|-------------------|
| <p>(e) Cumulative knowledge of the problems associated with compilation of this claim or return including previous points arising, any known concerns expressed by the grant-paying body, or any actions/Certification Instructions by the grant-paying body on previous qualification letters.</p> <p><i>In a robust control environment upon which reliance can be placed there will be no significant issues which are ongoing or recurrent; effective action will have been taken to address previous points arising including concerns expressed by the grant-paying body and grant-paying body actions/Certification Instructions following previous qualifications letters.</i></p> | <p>wp ref</p> |
| <p>(f) Overall assessment of the control environment.</p> <p>Based on sections 3(a) to (e) above, record your overall assessment of the control environment for the preparation of this claim or return.</p> | <p>wp ref</p> |
| <p>4 Analytical review</p> <p><i>Summarise the results of the comparison of expected with actual outcomes, the identification of unexpected variances and their subsequent investigation, explanation and corroboration and, where possible, comparisons with other authorities or national statistics.</i></p> | <p>wp ref</p> |

| | |
|--|-------------------|
| <p>5 Other relevant work</p> | |
| <p>(a) Use of and integration with other work Relevant systems, final accounts, fraud and corruption and other work by external audit (include cross references to other files, a note of specific Certification Instruction tests covered and a brief summary of work done):</p> | <p>wp ref</p> |
| <p>(b) Relevant internal audit work (include cross references to internal audit and other relevant files, note specific Certification Instruction tests covered and briefly summarise work done. Where reliance is to be placed on internal audit work, appropriate re-performance by the external auditor is required):</p> | <p>wp ref</p> |

6 Level of testing required

Based on sections 1-4 above and considering anything identified in section 5 (Other relevant work) auditors are to record the level of substantive testing to be undertaken.

Sample sizes considered necessary for testing

Any additional work necessary:

| | | |
|-------------|--|--|
| Prepared by | | |
| Agreed by | | |

TESTS

Tests 1 to 11 are phrased so that a 'No' answer requires further action.

| Claims and returns over the de minimis | Yes/ No/ N/A | Carried out by | Working paper ref |
|---|--------------------|-------------------|----------------------|
| 1. Has the risk and testing assessment form been completed and agreed with the reviewer? | | | |
| 2. Have all relevant parts of the claim/return been properly completed and does the local government body's certificate bear the original signature of an appropriate officer as specified in the grant conditions? | | | |
| 3. Is all arithmetic on the claim/return correct? | | | |
| 4. Do entries on the claim/return and supporting working papers agree with the local government body's expenditure and income accounts or data for the claim/return period? | | | |
| 5. Has duplication with other claims/returns been avoided? | | | |
| 6. Are payments on account appearing on the claim/return those received in respect of the claim/return period up to the date of the local government body's certificate? | | | |
| 7. Does testing of prime documents provide assurance that: (a) only expenditure in respect of the approved project is included? (b) only eligible expenditure is included? (c) recoverable VAT is excluded? (d) apportionments to the claim/return are on a fair basis? | | | |
| 8. Are contracts reflected in the claim/return awarded in accordance with standing orders? | | | |

| | Yes/ No/ N/A | Carried out by | Working paper ref |
|---|--------------------|-------------------|----------------------|
| 9. Are charges for goods or services provided in-house made on the same basis as those charged to non-grant-earning activities? | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| 10. Has an audit certificate been completed ? | | | |
| 11. Has the conclusion section of the certification checklist been completed? | | | |

NOTES ON TESTS

Test 1 (Risks and testing assessment)

See paragraphs 31 to 38 above on completion of the testing assessment.

Test 2 (Proper completion and certification by the local government body)

The claim or return made available to the auditor:

- (a) should be an original document, not a photocopy. In exceptional circumstances, for example, where the original has gone astray but a photocopy is available, a photocopy may be acceptable at the discretion of the grant paying body, but, to indicate that it is a true copy, it must bear the original signature of an officer who was eligible to certify the original form;
- (b) must be compiled indelibly, and if corrections are made, ink eradicator or correction fluid must not be used but the original entry struck out and the revised entry written in and initialled by an officer eligible to certify the form. Where correcting fluid has been used, the auditor should return the document to the authority for replacement;
- (c) must bear an original signature; and
- (d) must be certified by an appropriate senior officer, typically the Chief Financial Officer (CFO), or an officer authorised by written delegated powers. The grant-paying body's terms and conditions should make clear who is eligible to sign, or this may be implied from the designated signatory on the claim or return. Where claims or returns suggest certification by the CFO is required, but in practice certification by other officers is permissible, the Certification Instructions will make this clear. Where certification has been other than by the CFO/Deputy CFO, auditors should check:
 - (i) this is permitted by the grant paying body; **and**
 - (ii) delegation to the signatory is formally recorded and not assumed.

Test 4 (Agreement to accounts)

For those claims and returns to be compiled on a payments rather than an expenditure basis, the standard test will be amended, requiring a check that the claim or return 'reconciles' rather than 'agrees' with the accounts. The auditor will need to ensure that creditors/debtors are excluded from the claim or return when carrying out the reconciliation.

Where a local government body is the lead partner in a partnership, 'data' in this test covers the evidence the local government body has to support the inclusion of transactions of other partners in its claim or return.

Test 5 (Duplication)

To satisfy the duplication test auditors should:

- (a) examine the coding structure on the general ledger to determine whether expenditure relevant to the claim or return is clearly matched to grant income in such a way that a control is in place that should operate to prevent or detect duplication;

- (b) consider whether the expenditure included on this claim is held on a separate cost code and hence can be separately identified; and
- (c) consider whether any of the other tests performed in Part A, or any of their work on the control environment, indicates that duplication has occurred or that there is an unusual risk of duplication that Part A tests will not address;

Where auditors have significant concerns about potential duplication these should be included in a qualification letter.

Test 6 (Payments on account)

Many claims or returns require the local government body to record payments on account of grant received. The purpose of this test is to ensure that:

- (a) all amounts received in respect of the year as at the date of the local government body's certificate are recorded. By the time the claim or return is certified further amounts may have been received but the form should not be adjusted for these. However, where a claim or return is amended by the local government body and its certificate re-dated, amounts received by the date of the revised local government body certificate should be included.
- (b) adjustments in respect of earlier years' payments on account are excluded (for example, where a payment on account in respect of the current year has been abated by an amount overclaimed in previous years, the figure in the claim or return should be shown gross of the abatement);
- (c) the payments on account figure is supported by remittance advice(s) from the grant paying body; and
- (d) the payments on account figure agrees to the corresponding amount credited in the local government body's accounts.

Common errors to note are:

- (i) payments on account included erroneously, for example, adjustments for previous years' entitlement, or amounts received after the date of the local government body's certificate; or
- (ii) payments on account overstated on the claim or return, showing amounts claimed instead of amounts received; or
- (iii) failure to pick up that payment on account have been received but miscoded or coded to a suspense account.

To carry out this test, the auditor needs to:

- see evidence that the payments on account relate to the particular claim and claim year, usually a notification from the grant paying body; and
- review the accounts, including debtor/creditor accounts with the grant-paying body, to:

- test that payments on account have been received and coded correctly;
and
- ascertain that there are not further payments on account received and not credited in the claim.

Control weaknesses such as the absence of regular reconciliations of a debtor/creditor account with the grant-paying body, or failure to clear suspense accounts promptly, should be raised with the local government body. However, they do not call for a qualification letter provided the auditor is satisfied that the payments on account appearing on the claim are fairly stated.

Test 7 (Eligibility)

For those claims and returns to be compiled on a payments rather than an expenditure basis, the standard tests 7(a) and (b) will be amended, requiring a check that only eligible payments (as opposed to expenditure) in respect of the approved scheme are included.

For all tests on eligibility, it is necessary to establish that arrangements are in place to ensure that only eligible transactions are included and, by reference to prime documents, to test that those arrangements are operating satisfactorily.

Test 7(a) (Approvals - project based claims only)

The terms of an approval may all be included in the approval letter itself or may in part be covered by the general terms of the scheme. Test 7(a) is a standard test applying to project based claims or returns only, ensuring that the auditor is satisfied that the expenditure claimed relates to the approved project.

Test 7(b) (Eligible expenditure)

Test 7(b) is applied to ensure that eligible costs are included (and ineligible costs excluded) in accordance with the general terms of the grant scheme.

Test 7(c) (VAT)

Local government bodies are in a special refund scheme under section 33 of the VAT Act 1994 entitling them to recover VAT on their non-business activities. As input VAT that a local government body incurs in grant aided areas is usually on non-business activities, it will be recoverable from HM Customs & Excise. It is therefore to be excluded from claims, grant being calculated on expenditure net of recoverable VAT. This is usually achieved by coding VAT expenditure separately from the supply to which it relates. The test can be satisfied from an awareness of the coding structure and testing that it is operating in practice.

Partnership issues

As many Government initiatives are delivered by various forms of partnerships, HM Customs and Excise published a guide to VAT for partnership programmes in February 2001. There are three possible structures for these kinds of partnerships: these are set out below with their VAT implications:

- (a) The most common approach has a **management board or committee** set up to deliver the programme. A typical board will include:
 - the lead partner, chairing the management board;

- the accountable body, responsible for finance; and
- other partners, including those above, tasked with delivering certain services or policies.

In this approach, the partners (which may include local government bodies, local businesses and other members of the community) work together to achieve a single aim - but they will have not created a single legal entity to deliver the programme.

Under this arrangement, the VAT treatment of transactions will be as follows:

(i) Purchases of goods and services

The partners who contract for particular goods and services used for their contribution to the programme are the recipients for VAT purposes. Whether VAT can be recovered depends on their tax status – bodies subject to section 33 of the VAT Act 1994, can recover the tax and this will be repayable to the management board if the partnership has decided that funding is provided to partners on a VAT inclusive basis.

(ii) Reimbursement of partners by the Accountable Body

VAT will not arise on these payments. As the management board itself cannot receive or supply goods or services, any payments received by a partner, for an activity it agreed to deliver, are not treated as consideration for a supply of goods or services.

(iii) Administration and management charges for the Accountable Body

Partnerships normally have rules for administration and management charges. Any amounts kept by the Accountable Body for these costs are outside the scope of VAT as it is not deemed to be providing services to its partners.

(iv) Output VAT

The purpose of most partnership programmes makes it unlikely that business supplies will be made. However, if supplies are made, then thought will have to be given as to whether VAT will need to be accounted for. A detailed classification of the VAT status of the majority of local government body's activities is listed in Customs and Excise Notice 749.

(v) Input VAT – buildings

Unless a building is being constructed as (or converted to) a dwelling, work will be standard rated. Similarly, all alterations are standard rated unless they are done on protected buildings designed to remain (or become) dwellings.

- (b) Where the **body subject to section 33 of the VAT Act 1994 has lead responsibility** for delivering a project and any funds available are paid to it and belong to it and that body buys the goods and services for delivering the programme, then it can recover the VAT incurred.

- (c) If the partners set up a **separate legal entity** to deliver the programme then, if that body is not eligible for status as a body subject to section 33 of the VAT Act 1994, it is unlikely that it can recover any VAT incurred unless it has some business activities for VAT purposes.

Test 7(d) (Apportionments)

In checking the fairness of charges apportioned to a claim or return, the auditor needs to ascertain that they represent a fair assessment of the costs attributable to the claim or return in the period. This test is to check that costs are not being unfairly attributed to grant earning areas where expenditure is apportioned over grant-earning and non-grant-earning expenditure heads.

Test 8 (Contracts)

The test is designed to ensure that a local government body is applying no lesser standards of value and probity in its contracting procedures where the cost is ultimately met or supported from grant than it would apply where costs are borne by the authority itself.

Test 9 (Charges for in-house goods and services)

The purpose of the test is to ensure that the charge to the claim or return is on the same basis as would have applied if the goods or services were provided for a non-grant-earning area. This applies irrespective of whether the local government body recharges goods and services attributable to the activity, or whether the charge is for goods or services at rates in a contract won by an in-house provider following competitive bidding.

LOCAL GOVERNMENT BODY WORKING PAPERS IN SUPPORT OF CLAIMS AND RETURNS

Working papers should include:

- (a) the date of preparation and the name of the officer preparing the working papers;
 - (b) the appropriate cells of the claim or return to which the paper relates;
 - (c) cross references to the system or copies of systems printouts from which the information is taken;
 - (d) copies of original approvals, subsequent variations and any other correspondence with the grant-paying body;
 - (e) a reconciliation of income and expenditure figures in the claim or return to working papers and account codes;
 - (f) details of payments made on account, supported by relevant advice notes from the grant-paying body;
 - (g) a reconciliation of the balance on each claim or return with the accounts at the date of the chief financial officer's certificate;
 - (h) a comparison of expenditure with approvals;
 - (i) an explanation of significant variances from the previous period and from forecasts;
 - (j) details of large journal transfers, with voucher references;
 - (k) notes on the basis of any expenditure apportionment;
 - (l) a description of relevant internal controls and a note on the extent of internal audit cover, with cross reference to internal audit files;
 - (m) evidence that contracts were let in accordance with standing orders where the claim or return includes charges for work carried out by a third party under contract;
 - (n) evidence of independent review of expenditure, which is included in the claim or return, but incurred by another body.
-