

CHIEF LOCAL GOVERNMENT AUDITOR'S

Claims & Returns Certification Instructions – March 2007

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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 Northern Ireland department or public authority to that local government body. The Chief Local Government Auditor, rather than local government auditors, has the responsibility for making certification arrangements. The framework within which the Chief Local Government Auditor will decide whether or not to make certification arrangements in any particular case is set out in paragraphs 5 to 14 below.
3. This instruction provides general guidance to local government 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 local government auditor;
 - **'Chief Local Government Auditor'** refers to 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;
 - **'local government auditor'** is the auditor designated to audit a local government body from members of staff of the Northern Ireland Audit Office by the Department of the Environment, with the consent of the Comptroller and Auditor General, in accordance with Article 4 of the Order. For the purpose of certifying claims and returns under Article 25 of the Order a local government auditor acts under the direction of the Chief Local Government Auditor. In this capacity, whilst qualified to act as an independent external auditor, the local government auditor acts as a professional accountant undertaking an assurance engagement governed by the Chief Local Government Auditor's certification instruction arrangements;
 - **'assurance engagement'** is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured

against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;

- **'certification instructions'** are the written instructions from the Chief Local Government Auditor to local government auditors on the certification of claims and returns;
- **'certify'** means the addition by the local government auditor, of his/her audit certificate on a claim form or return, in accordance with arrangements made by the Chief Local Government Auditor;
- **'claims'** includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;
- **'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 ; and
- **'underlying records'** are the accounts, data and other working papers supporting entries on a claim or return.

'Statement' is the statement of responsibilities of grant-paying bodies, local government bodies, the Chief Local Government Auditor and local government auditors 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 Northern Ireland department or public authority to any local government body subject to audit under the Order. The Chief Local Government Auditor, rather than the local government auditor, has the responsibility for making certification arrangements.

6. In making certification arrangements under Article 25 of the Order, the Chief Local Government Auditor shall, if required by public bodies make arrangements :

- (a) may do so only at the request of local government bodies;
- (b) is not subject to direction by grant-paying bodies; and
- (c) must charge local government bodies such fees as will cover the full cost of certification.

7. The certification arrangements made by the Chief Local Government Auditor comprise Certification Instructions which local government auditors must follow. The certificate included on each claim or return requires the local government auditor to apply some or all of the tests in the Certification Instructions depending on the amount claimed and the auditor's assessment of the control environment for the preparation of the claim or return.

8. Certification work using Certification Instructions is not an audit but a different form of assurance engagement designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions. International Auditing Standards (ISAs), the Auditing Practices Board's Practice Note 10 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 local government auditor expresses an 'opinion' on accounts but reaches a 'conclusion' on claims and returns;
- (c) in giving an 'opinion' on accounts, the local government 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 local government auditor is to reach a 'conclusion' - for example, that the claim or return is fairly stated and in accordance with the relevant terms and conditions, except for matters raised in a 'qualification letter';
- (d) the local government 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 local government auditor's view might have a 'significant' effect on the claim or return.

9. 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 convey background information which would otherwise have to be sought by local government auditors, thereby reducing overall certification costs to auditors and local government bodies; and
- (c) to leave grant-paying bodies and their auditors in no doubt as to the nature of work undertaken by local government auditors before giving their certificate.

10. In making certification arrangements under Article 25 of the Order, the Chief Local Government Auditor will have regard to what it is appropriate, practically and professionally, to expect the certification process and local government auditors to do, whether in terms of:

- (a) the nature or extent of the work required;
- (b) the level of assurance sought; or
- (c) the robustness of the criteria to be applied.

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

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

12. In order to manage the number of claims and returns requiring certification and the consequential regulatory burden on authorities, the Chief Local Government Auditor has decided that certification arrangements should be proportionate to the amount of grant involved and that grant-paying bodies must secure the Chief Local Government Auditor's formal agreement to make certification arrangements before certification by a local government auditor is made a condition of grant.

13. The certification arrangements the Chief Local Government Auditor will make are summarised below. In all cases the financial limits are by reference to the total amount claimed, rather than the grant allocation or the total eligible expenditure. In the case of projects, the financial limit is by reference to the total amount claimable over the lifetime of the project:

- (a) For claims and returns below a de minimis amount set by the Chief Local Government Auditor (currently £25,000), the Chief Local Government Auditor will not apply his Claims and Returns Certification Instructions, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions. Consequently local government auditors are also prevented from certifying claims or returns below the de minimis amount.
- (b) For claims and returns between the de minimis amount and a threshold to be set by the Chief Local Government Auditor (currently £50,000), local government auditors will undertake limited tests to agree form entries to underlying records, but will not undertake any testing of the eligibility of expenditure or data.
- (c) For claims and returns over the threshold, local government auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.

14. The Chief Local Government Auditor requires grant-paying bodies to secure his formal agreement at scheme or programme level that he will apply his Claims and Returns Certification Instructions, before certification by the local government auditor is made a condition of grant. To this end, the Chief Local Government Auditor requires the Principal Finance Officer or equivalent of the grant-paying body to write to him at an early stage, requesting auditor certification. The letter is to be accompanied by a copy of the grant terms and conditions, the claim form or return requiring certification and a list of potential claimant local government bodies and the amount claimable by each. The Chief Local Government Auditor requires a period of not less than twenty working days to respond to the grant-paying body. The Chief Local Government Auditor will not make certification arrangements unless his formal agreement to do so has been secured.

Appointment of auditors and their eligibility to certify claims and returns

15. The Chief Local Government Auditor normally appoints for certification purposes the same auditor designated from members of staff of the Northern Ireland Audit Office by the Department of the Environment, with the consent of the Comptroller and Auditor General, to audit the accounts on which the claim or return is based, including the certification of claims and returns based on earlier accounts audited by a previous local government auditor where these claims and returns are outstanding at handover. The Chief Local Government Auditor regards all outstanding claims and returns as the responsibility of the current local government auditor, to whom all queries will be addressed.

16. Other persons may assist local government auditors to carry out much of the detailed checking of claims and returns under supervision.

17. Local government auditors will only certify claims and returns in accordance with the arrangements set out at paragraphs 4 to 14 above.

Local government auditor's responsibilities

18. Local government auditors act under the direction of the Chief Local Government Auditor when undertaking certification work and, while designated to act as independent external auditors, are not performing an audit but a different form of assurance engagement, the precise nature of which will vary according to the amount of the claim or return. When giving the local government auditor's certificate on a claim or return, the local government auditor is required to carry out certification work and complete the auditor's certificate in accordance with arrangements made by the Chief Local Government Auditor.

19. Local government auditors are required:

- (a) to review the information contained within the claim or return and to express a conclusion whether the claim or return:
 - is in accordance with the underlying records (*claims and returns between the de minimis amount and the threshold*); or
 - is fairly stated and in accordance with the relevant terms and conditions (*claims and returns over the threshold*).
- (b) to examine the claim or return and related accounts and records of the local government body in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions. In carrying out their work, the local government auditor will obtain such evidence and explanations from the local government body as the local government auditor considers necessary to form a conclusion. Where testing is required, the level of testing is a matter of professional judgment according to the particular circumstances of the local government body and the claim or return as well as the local government auditor's assessment of risk.
- (c) subject to compliance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and where testing is required, to direct work to those matters that, in the 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 local government auditor acts as a professional accountant and not a legal expert;

- (d) to plan and complete their work in a timely fashion so that deadlines are met; and
- (e) to complete the local government auditor's certificate, qualified as necessary, in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and to provide local government bodies with copies of certified claims and returns, and qualification letters for information. The local government auditor's certificate and qualification letter are provided for the use of the grant-paying body and the local government body. Local government auditors should not disclose certificates and qualification letters, in whole or in part, to third parties other than those with statutory rights of access to them. The 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.

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

21. In particular, these arrangements do not place on local government auditors a responsibility to either:

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

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

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

22. The Chief Local Government Auditor is responsible for drafting his Claims and Returns Certification Instructions, agreeing with grant paying bodies whether these will be applied to new schemes, undertaking appropriate consultation and responding to queries from local government auditors when using the Claims and Returns Certification Instructions. The Chief Local Government Auditor consults with local government auditors where there are significant changes to his certification requirements. The Chief Local Government Auditor will also deal with queries from grant-paying bodies that arise after auditor certification where further reference to the local government auditor may be called for (paragraphs 74 to 77 below).

23. The Claims and Returns Certification Instructions will be amended as and when necessary to reflect the development of best practice and changes in individual grants and subsidies claims. Auditors are asked to notify the Chief Local Government Auditor of amendments that appear to be needed, or of any scheme requiring auditor certification, which have not previously been drawn to the attention of the Chief Local Government Auditor. Local government auditors should refer queries to the Chief Local Government Auditor. The Chief Local Government Auditor will ensure that any necessary clarification is obtained from the grant-paying body and included, if required, in revised Claims and Returns Certification Instructions. Auditors should not approach grant-paying bodies for clarification of scheme requirements.

24. The Chief Local Government Auditor provides guidance on the certification of claims and returns to local government auditors in his Claims and Returns Certification Instructions (Chief Local Government Auditor – available from [http://www.niauditoffice.gov.uk/](http://www.niauditoffice.gov.uk/http://www.niauditoffice.gov.uk)).

25. The Claims and Returns Certification Instructions are prepared by the Chief Local Government Auditor for use only by local government auditors 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 local government auditors.

Fees for certification work

26. Every local government body to which the Chief Local Government Auditor's Claims and Returns Certification Instruction claims are applied 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

27. 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) control environment 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

28. The local government auditor 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. Local government auditors should plan to undertake and complete their work in timely fashion so that certification deadlines are met. Local government 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 Claims and Returns 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.

29. Auditors should encourage local government bodies to familiarise themselves with the advice contained in the Audit Commission's corporate briefing *Claims and returns: Good practice for authorities* (Audit Commission – available from www.audit-commission.gov.uk/reports: reports published on 20 April 2004) and to follow the recommended practice whenever possible.

Claims routed to local government auditors via grant-paying bodies

30. The Chief Local Government Auditor's preferred policy is for local government auditors 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 routeing. Routeing via grant-paying bodies can lead to delays in claims or returns being available to the local government auditor. If there are delays by grant-paying bodies in making claims or returns available to local government auditors, the Chief Local Government Auditor should be informed and will pursue their release.

Integration with and reliance on other work

Integration with systems, final accounts and fraud and corruption work

31. 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

32. 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 local government auditor. When using internal audit work the local government auditor must:

- (a) consider the extent to which internal audit work specifically covers the individual tests required by the Claims and Returns 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 local government 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 by the local government auditor; and
 - (ii) the Chief Local Government Auditor and grant-paying bodies expect that the verification of claims and subsidies form entries, on which grant entitlement depends, is carried out by a local government auditor who is independent of the authority;
- (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.

33. 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 Chief Local Government Auditor's Claims and Returns 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 local government auditor should provide appropriate levels of direction and review; and

- (c) the local government auditor must determine
 - (i) the levels of testing (paragraphs 38 to 45 below) and any additional work (paragraph 46) needed; and
 - (ii) the extent of re-performance of internal audit work necessary.

Certification arrangements

34. The certification arrangements made by the Chief Local Government Auditor are summarised in paragraphs 5 to 14 above. The certification work required will vary according to the value of the claim or return in terms of the 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 £5,000, £20,000 and £30,000 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 £25,000)

35. Claims and returns below the de minimis amount set by the Chief Local Government Auditor (currently £25,000) 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 local government auditors for less than £25,000 should be returned to the local government body.

Claims and returns between the de minimis amount and the threshold set by the Chief Local Government Auditor (currently £50,000)

36. For claims and returns between the de minimis amount and the threshold set by the Chief Local Government Auditor (currently £50,000), local government auditors are required to complete the standard tests at Appendix 3 Part A of the Chief Local Government Auditor's Claims and Returns Certification Instructions. Local government auditors' work, however, is limited to agreeing the local government bodies' grants and subsidies form entries to underlying records (the accounts, data and other working papers supporting entries on the claim or return) and does not extend to any testing of the eligibility of expenditure or data. The standard Part A tests to be performed are:

- test 2 completion and certification by the local government body
- test 3 arithmetic
- test 4 agreement to the accounts or other data for the period
- test 5 duplication
- test 6 payments on account
- test 7 certificate
- test 8 conclusion section of the certification checklist

Test 1 is the control environment and testing assessment which only applies to claims over the threshold.

Claims and returns over the threshold (currently £50,000)

37. For claims and returns over the threshold, local government auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree local government bodies' form entries to underlying records by completing the standard tests in Appendix 3 Part A of the Chief Local Government Auditor's Claims and Returns Certification Instructions (tests 1 to 8). Where reliance is not placed on the control environment, auditors will undertake the standard tests in Appendix 3 Parts A and B of the Chief Local Government Auditor's Claims and Returns Certification Instructions and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.

The control environment and testing assessment

38. The control environment for each claim or return is to be assessed using the control environment and testing assessment form included as Appendix 2 of the Chief Local Government Auditor's Claims and Returns Certification Instructions. The control environment assessment and, where auditors decide not to place reliance on the control environment, the testing assessment, must be completed by the auditor and reviewed before detailed certification work is carried out.

39. Completion of the control environment and testing assessment form (Appendix 2) requires the local government 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. (Where reliance is placed on the control environment, auditors will undertake limited tests to agree local government bodies' grants and subsidies form entries to underlying records, by completing the standard tests in Appendix 3 Part A of the Chief Local Government Auditor's Claims and Returns Certification Instructions. Where reliance is not placed on the control environment, auditors will undertake the standard tests in Appendix 3 Parts A and B of the Chief Local Government Auditor's Claims and Returns and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required).

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

Part 3 of the control environment and testing assessment form indicates the factors local government 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 local government 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 4(b) of the form.

Part 3(f) of the control environment and testing 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 Claims and Returns Certification Instructions, but in the context of certification work, is a powerful tool to identify those entries where more extensive investigation is called for. The local government auditor can make appropriate use of analytical review carried out by the local government body or internal audit.

Part 3(g) of the control environment and testing assessment requires the local government auditor, in the light of Parts 1, 2 and 3(a) to (f), to reach an overall conclusion about the control environment and to document the auditor's decisions on whether or not to place reliance on the control environment and therefore whether to do the standard tests in Appendix 3 Part A or the standard tests in both Parts A and B tests. In reaching this overall judgment, local government 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.

Parts 4 and 5 of the control environment and testing assessment form are completed only where the auditor decides not to place reliance on the control environment. The auditor is required:

- (d) to record (in Part 4 of Appendix 2) the extent and adequacy of other relevant work by either the local government 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;
- (e) in the light of Parts 1 to 4 of the control environment and testing assessment, to decide upon and document (in Part 5 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. Local government 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

(claims and returns over the threshold only, where the auditor decides not to place reliance on the control environment)

Sample sizes

40. The sample sizes (level of testing) for standard tests in Appendix 3 Part B 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

41. Local government 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.

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

43. When errors, defects or uncertainties are disclosed in the course of applying sample checks, the local government auditor must determine whether they are typical of the population or isolated examples found by chance. The local government auditor needs to draw conclusions from test findings; it is not acceptable to advise grant-paying bodies of findings without an indication of their significance. Local government 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.

44. 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 local government auditor and testing of the local government body's corrective action, or whether the local government auditor alone should test a larger sample. Rechecking and corrective action by the local government body before further local government auditor testing is likely to be the more cost-

effective option, particularly so where the time for rechecking is likely to be significant;

- (d) in some situations, for example, in the case of missing documentation, two-step sampling may be appropriate, the local government 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.

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

Additional work

46. The need to carry out work in addition to that specified in the Chief Local Government Auditor's Claims and Returns 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 Claims and Returns Certification Instructions. For example:

- (a) the local government auditor 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 Claims and Returns Certification Instructions tests; or
- (b) unusual or unexpected issues noted in the course of applying Claims and Returns Certification Instructions tests could suggest that further investigation is necessary to confirm the validity of entries made.

The local government auditor 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

47. 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.

48. 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

49. The tests schedule incorporated in the Chief Local Government Auditor's Claims and Returns Certification Instructions should be used to evidence the performance of tests. The last standard test Appendix 3 Part A requires the 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.

50. 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.

51. Working papers should be kept to support the auditor's certificate and the charge made to the local government body. They should be retained for a period of six years from the date the auditor certificate is given. They should include the following:

- (a) copy of the claim or return as certified by the 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.

52. Where a test is not applicable, the local government auditor's 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.

53. Where possible, use should be made of papers already provided by the local government body, or by the local government auditor for other auditor work, and in the case of local government body's papers, 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 6.

Claims & returns requiring assurance from another body

54. 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;
- (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.

55. 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, local government 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 must issue a qualification letter to the grant-paying body setting out the facts.

56. A partner local government body may ask a 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. Local government auditors should 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 local government auditor certified statement to the grant-paying body is covered by the Chief Local Government Auditor's Claims and Returns Certification Instructions. The Chief Local Government Auditor does not intend the arrangements set out in these paragraphs to be used to secure local government auditor 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 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 local government auditor. Where there is any uncertainty about the application of these arrangements queries should be directed to the Chief Local Government Auditor; and

- (b) the de minimis and threshold arrangements set out in the Statement of Responsibilities are applied. Claims and returns below the de minimis amount should not be certified and claims and returns between the de minimis amount and the threshold should only be subject to limited testing to confirm the form entries to underlying records; and
- (c) the standard form of auditor's certificate is given (see Appendix 1: Statement of Responsibilities). At the local government auditor's discretion, the certificate should be completed by reference to the Chief Local Government Auditor's Claims and Returns Certification Instructions; and
- (d) the claim or return has been appropriately certified by the local government body prior to local government auditor certification and the local government auditor's certificate provides no greater degree of assurance than has already been provided by the authority.

Local government auditors 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 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 the local government auditor to certify that a partner's systems and procedures have operated effectively.

CERTIFICATION, AMENDMENTS AND QUALIFICATION LETTERS

Audit certificate

Prescribed form

57. The form of audit certificate to be given by the local government auditor is that outlined below and included with the Statement of Responsibilities (Appendix 1).

<h1>ABX</h1>	Certificate of the local government auditor designated by the Department of Environment for Northern Ireland
<p>The Statement of Responsibilities of grant-paying bodies, local government bodies, the Chief Local Government Auditor and local government auditors in relation to claims and returns, issued by the Chief Local Government Auditor, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as local government auditors.</p>	
<p>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 and I have:</p>	
<p><i>For claims and returns above de minimis and up to the threshold#</i></p>	
<ul style="list-style-type: none">• carried out Part A tests in the Chief Local Government Auditor's Claims and Returns Certification Instructions and obtained such evidence and explanations as I consider necessary. <p>(Except for the matters raised in the attached qualification letter dated _____)* I have concluded that the claim or return is in accordance with the underlying records.</p>	
<p><i>For claims and returns over the threshold##</i></p>	
<ul style="list-style-type: none">• assessed the control environment for 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 Part A/Parts A and B* tests in the Chief Local Government Auditor's Claims and Returns Certification Instructions and obtained such evidence and explanations as I consider necessary. <p>(Except for the matters raised in the attached qualification letter dated _____)* I have concluded that the claim or return is:</p> <ul style="list-style-type: none">- fairly stated; and- in accordance with the relevant terms and conditions.	
Signature _____	Name (block capitals) _____
Date _____	on behalf of the Chief Local Government Auditor
<p><i>*Delete as necessary</i> <i># Delete non-applicable certificate</i></p>	

Completion of local government auditor certificate

58. The certificate requires the local government auditor to delete those parts of it which do not apply (indicated by * and # in the example certificate above) and obliges the local government auditor to reach a conclusion either:

- (a) that the claim or return is in accordance with the underlying records (*claims and returns above de minimis and up to the threshold*); or
- (b) that the claim or return is fairly stated and in accordance with the relevant terms and conditions (*claims and returns over the threshold*).

59. The local government auditor's certificate may be completed:

(a) *without qualification*

Where the Chief Local Government Auditor's Claims and Returns Certification Instructions have been completed and in the local government auditor's professional judgment the claim or return is, as appropriate, either in accordance with the underlying records or fairly stated and in accordance with the relevant terms and conditions, the local government auditor should:

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

delete the words 'Except for the matters raised in the attached qualification letter dated'; and

sign and date the certificate.

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

Where the Chief Local Government Auditor's Claims and Returns Certification Instructions tests have been completed and in the local government auditor's professional judgment the claim or return, after amendment or replacement by the local government body (paragraphs 60 to 62 below), is, as appropriate, either in accordance with the underlying records or fairly stated and in accordance with the relevant terms and conditions, the local government auditor should:

insert the date of the original form; and

delete the words 'Except for the matters raised in the attached qualification letter dated'; and

sign and date the certificate.

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 63 to 68 should be followed.

Where the Chief Local Government Auditor's Claims and Returns Certification Instructions tests have been completed and in the local government auditor's

professional judgment the claim or return (or its amendment or replacement, paragraphs 60 to 62 below) is not, as appropriate, either in accordance with the underlying records or fairly stated and in accordance with the relevant terms and conditions, the local government auditor should:

- (i) if the form is unamended:

delete the words '(which replaces or amends the original submitted to me by the local government body dated)'
- (ii) if the form has been amended or replaced:

insert the date of the original form;

include in the qualification letter a reference to the amendment, for example, 'This claim/return incorporates amendments/replaces that were submitted previously. I also draw your attention to.....'
- (iii) enter the date of the qualification letter; and
- (iv) sign and date the certificate.

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

Local government body amendments

60. When the Chief Local Government Auditor's Claims and Returns Certification Instructions tests disclose errors and the local government body agrees that amendment of the claim or return is necessary, the 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 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.

61. The amendment procedure is appropriate where the local government auditor concludes the errors are isolated cases or has extrapolated findings and is satisfied that after amendment the entry/entries is/are, as appropriate, either in accordance with the underlying records or fairly stated and 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.

62. Local government 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.

Local government auditor qualification letters

63. A certified claim or return, taken with the 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 that the local government auditor should:

- (a) draw attention only to matters which prevent the audit 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 local government auditor is unable to reach a conclusion.

64. Any communication from the local government auditor which accompanies a certified claim or return is a qualification letter and must be referred to in the 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, local government body and the Chief Local Government Auditor.

65. 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 local government auditor 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.

66. 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 2005/06 claim for ABC grant: qualification letter referred to in local government auditor certificate dated 5 December 2006')
- (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;

67. Pitfalls to avoid, apart from failure to observe the above guidance, are:

- (a) setting out facts but not stating the 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 43 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 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;

- (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; and
- (g) including a request that any queries on the qualification letter should be addressed to the local government auditor (paragraph 77 below).

Supplementary qualification letters

68. Where exceptionally the 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 (Appendix 5), with copies sent simultaneously to the Chief Local Government Auditor and local government body (qualification letter only).

ISSUE OF CERTIFIED CLAIMS AND RETURNS

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

70. After certification, claims and returns are to be sent by the local government auditor with the Covering Letter (Appendix 5) direct to the grant-paying body. The Covering Letter is a covering sheet for each certified claim or return, designed to readily identify its enclosures; it should therefore appear in front of the claim or return and any accompanying qualification letter. It should also be used as a covering sheet for supplementary qualification letters not accompanying a claim or return (paragraph 68 above).

71. Only original Covering Letters are to be used; neither photocopies nor copies printed from the sample reproduced at Appendix 5 are acceptable. An original Covering Letter provides assurance to the grant-paying body that a certified claim or return has been received from the local government auditor, not the local government body. The local government auditor must therefore not return certified claims and returns to a local government body to send on to the grant-paying body.

72. In completing Covering Letters (appendix 5), note that:

- (a) the use of black ink is recommended to facilitate taking photocopies for auditor file purposes and, where required, Chief Local Government Auditor purposes;
- (b) it should indicate whether the claim or return is on completion of a project or annual for a specified financial year;
- (c) the name of the authority should be given in full, for example, Ballymena Borough Council, not Ballymena BC or BBC;
- (d) the options should be ticked in either or both of the boxes as appropriate to indicate the replacement or amendment of the claim or return and/or when a qualification letter has been issued. The boxes should be left blank where neither option applies. Crosses must not be used instead of a tick or blank;
- (e) in recording adjustments to the amount payable by the grant-paying body:
 - (i) all are to be recorded, irrespective of value, but recording pence only where the claim is completed on a £p basis;
 - (ii) the net overall adjustment to the amount payable figure should be given, for example, an increase of £15,000 in one head of expenditure matched by a similar decrease in another may have no overall effect on entitlement;
 - (iii) the amendment may reflect corrections to the entries for expenditure, income or payments of grant on account, each resulting in the balance payable at the date of the local government body's certificate being misstated; and
- (f) Each Covering Letter is to bear a unique reference comprised of the reference number of the relevant Northern Ireland Audit Office file.

73. The certification checklist at Appendix 4 of the Chief Local Government Auditor's Claims and Returns Certification Instructions serves to ensure that each certified claim or

return is issued, appropriate records are maintained and the local government body, and where appropriate the Chief Local Government Auditor are advised of the 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 69 to 72 above;
- (b) the audit file retains a copy of the certified claim or return (and any qualification letter) and its Covering Letter as issued;
- (c) a copy of the claim or return (and any qualification letter) is provided to the local government body for information. If in exceptional circumstances such as suspected fraud or corruption it would appear inappropriate to copy a letter to a local government body, the Chief Local Government Auditor should be consulted first so that an appropriate course of action can be agreed;
- (d) any adjustments in excess of £5,000 to the amount payable (paragraph 66(f) and paragraph 72(e) above) and any qualification letter issued are to be notified promptly to the Chief Local Government Auditor on a photocopy of the Covering Letter, with a copy of the qualification letter. Note that the Chief Local Government Auditor does not require:
 - (i) a copy of the claim or return;
 - (ii) a copy of the Covering Letter if there is no qualification letter or any adjustment to entitlement is less than £5,000;

QUERIES FROM GRANT-PAYING BODIES

Before certification

74. Where a grant-paying body carries out a preliminary check on a claim or return prior to referring it to the 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 local government auditor as appropriate. However, it is not part of a 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

75. The Covering Letter requires all queries from grant-paying bodies on certified claims and returns to be referred in the first instance to either the local government body or the Chief Local Government Auditor. Local government auditors should not seek to negate these arrangements by including in qualification letters a request that queries should be directed to them. The Chief Local Government Auditor does not intend that local government auditors should, at local government bodies' expense, deal with queries from grant-paying bodies which are not relevant to the conditions of grant or the requirements for completion of the claim or return, or which could be addressed to the local government body. Equally, however, it wishes to ensure that legitimate queries and concerns are dealt with expeditiously, and that problems that might require amendment to the Chief Local Government Auditor's Claims and Returns Certification Instructions are identified promptly and appropriate action taken.

76. It follows that:

- (a) if a local government auditor receives a query direct from a grant-paying body on a certified claim or return, it should not be dealt with but the matter should be referred immediately to the Chief Local Government Auditor;
- (b) queries from grant-paying bodies on certified claims and returns, which are addressed to and have been forwarded by the Chief Local Government Auditor, should be dealt with promptly by local government auditors, taking account of any accompanying comments that the Chief Local Government Auditor may have made; and
- (c) queries from grant-paying bodies on certified claims and returns, which are addressed to the local government body and require the local government body's reply to be routed via the local government auditor, should be dealt with promptly, provided a copy of the grant-paying body's query has been received by the auditor via the Chief Local Government Auditor.

Any queries local government auditors have on copy correspondence received electronically directly from local government bodies should be directed to the Chief Local Government Auditor.

77. The resolution of a query, irrespective of whether it was received under routes (b) or (c) above, 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, in particular, sending a copy of any supplementary qualification letter to the Chief Local Government Auditor with the

Covering Letter. Where the query requires revised information to be certified by the local government auditor, it will often suffice to affix the audit certificate (included in the 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 local government auditor certificate should be amended and initialled. When a supplementary qualification letter is issued alone, the procedure in paragraph 62 above must be followed.

MISSING & OVERDUE CLAIMS AND RETURNS

Prompt submission

78. It is in the interest of all concerned that claims and returns are completed promptly and it is the 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 local government auditors or the Chief Local Government Auditor, when a claim or return is overdue but may approach the Chief Local Government Auditor if there are allegations by authorities of undue delay by local government auditors.

Stragglers (overdue claims)

79. Where grant-paying bodies have published deadlines by which certified claims and returns are to reach them and have advised the Chief Local Government Auditor of those which are overdue, a monthly summary of this information is sent to the Chief Local Government Auditor who will draw the attention of local government auditors to any stragglers.

80. Where it is evident to the local government auditor that a certified claim or return has gone astray in transit to the grant-paying body, the 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.

81. If a local government auditor wishes to confirm with a grant-paying body that a claim or return which should have arrived is still outstanding, the Chief Local Government Auditor should be advised of the precise date on which the claim or return was submitted and enquiries will be made. Such queries are welcome in the period shortly after stragglers are first notified to local government auditors because a spate of queries may indicate that stragglers notified for a particular scheme are suspect and the Chief Local Government Auditor can insist that the grant-paying body concerned double-checks its records.

RESTRICTIONS ON DISCLOSURE

82. The disclosure of local government audit certificates and qualification letters by local government auditors is restricted. The local government auditor is to send copies to the grant-paying body, local government body and the Chief Local Government Auditor. 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. Local government auditors 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, THE CHIEF LOCAL GOVERNMENT AUDITOR AND LOCAL GOVERNMENT AUDITORS IN RELATION TO CLAIMS AND RETURNS

This statement highlights the different responsibilities of grant-paying bodies, local government bodies, the Chief Local Government Auditor and local government auditors in relation to claims and returns. It is published following the introduction of the Local Government (Northern Ireland) Order 2005 ("the Order"). Article 25 of 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. This follows consultation with stakeholders.

The statement is based on a similar document published by the Audit Commission in 2004 and updated in 2007. The Audit Commission has also published two corporate briefings, Claims and returns: Good practice for grant-paying bodies and Claims and returns: Good practice for authorities (Audit Commission, published 20 April 2004 – available from www.audit-commission.gov.uk/reports).

Introduction

1. Grant-paying bodies may require certification of local government bodies' claims for grant or subsidy, and of other returns of financial information, by an appropriately qualified and independent accountant. 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, the Chief Local Government Auditor and local government auditors all have an interest in ensuring that claim and return certification procedures operate efficiently and effectively and with a common understanding by all parties of their respective responsibilities.
2. The purpose of this statement is to summarise the framework under which the Chief Local Government Auditor will apply his certification instructions and to assist grant-paying bodies, local government bodies, and local government auditors 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' refers to 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;
 - 'local government auditor' is the auditor designated to audit a local government body by the Department of the Environment, with the consent of the Comptroller and Auditor General, from members of staff of the Northern

Ireland Audit Office in accordance with Article 4 of the Order. For the purpose of certifying claims and returns under Article 25 of the Order a local government auditor acts under the direction of the Chief Local Government Auditor. In this capacity, whilst qualified to act as an independent external auditor, the local government auditor acts as a professional accountant undertaking an assurance engagement governed by the Chief Local Government Auditor's certification instruction arrangements;

- 'assurance engagement' is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;
- 'certification instructions' are the written instructions from the Chief Local Government Auditor to local government auditors on the certification of claims and returns;
- 'certify' means the addition by the local government auditor, of his/her audit certificate on a claim form or return, in accordance with arrangements made by the Chief Local Government Auditor;
- 'claims' includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;
- '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 ; and
- 'underlying records' are the accounts, data and other working papers supporting entries on a claim or return.

Chief Local Government Auditor's certification arrangements

4. 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 Northern Ireland department or public authority to any local government body subject to audit under the Order. The Chief Local Government Auditor, rather than the local government auditor, has the responsibility for making certification arrangements.
5. Notwithstanding any desire by a grant-paying body or local government body to have claims or returns certified by the 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 can make a judgement whether it is

appropriate to apply his certification instructions in specific cases, having regard to the particular circumstances of a scheme, the sums involved, the likely auditor workload and the likely costs of certification. In practice, this means that the Chief Local Government Auditor can decline to apply his certification instructions where he deems it appropriate to do so.

6. In order to manage the number of claims and returns requiring certification and the consequential regulatory burden on local government bodies, the Chief Local Government Auditor has decided that certification arrangements should be proportionate to the amount of grant involved and that grant-paying bodies must secure the Chief Local Government Auditor's formal agreement to apply his certification instructions before certification by one of the local government auditors is made a condition of grant.
7. The certification arrangements that the Chief Local Government Auditor will make are summarised below. In all cases the financial limits are by reference to the total amount claimed, rather than the grant allocation or the total eligible expenditure. In the case of projects, the financial limit is by reference to the total amount claimable over the lifetime of the project:
 - For claims and returns below a de minimis amount set by the Chief Local Government Auditor (currently £25,000), the Chief Local Government Auditor will not apply his certification instructions, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions. Consequently local government auditors are also prevented from certifying claims or returns below the de minimis amount.
 - For claims and returns between the de minimis amount and a threshold to be set by the Chief Local Government Auditor (currently £50,000), local government auditors will undertake limited tests to agree form entries to underlying records, but will not undertake any testing of the eligibility of expenditure or data.
 - For claims and returns over the threshold, auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.
8. The Chief Local Government Auditor requires grant-paying bodies to secure his formal agreement at scheme or programme level that he will apply his certification instructions, before certification by the local government auditor is made a condition of grant. To this end, the Chief Local Government Auditor requires the Principal Finance Officer, or equivalent, of the grant-paying body to write to him at an early stage, requesting auditor certification. The letter is to be accompanied by a copy of the grant terms and conditions, the claim form or return requiring certification and a list of potential claimant 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 apply his certification instructions unless his formal agreement to do so has been secured in accordance with this statement.

9. The Chief Local Government Auditor provides guidance on the certification of claims and returns to local government auditors in his Claims and Returns Certification Instructions (Chief Local Government Auditor – available from www.niauditoffice.gov.uk). The form of the local government auditor's certificate to be given is set out at the end of this statement.

Grant-paying bodies

10. The effectiveness of a grant-paying body's arrangements for securing independently certified information depends on the grant-paying body:
- specifying robust and practicable terms and conditions in accordance with which a local government body prepares its claim or return and gives its certificate; and
 - specifying appropriate local government body and auditor certification arrangements.
11. 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 role and responsibilities of the various parties involved in schemes operated by partnerships, in particular in identifying the responsible administering body and liabilities for repayment in the event of default;
 - claim forms and returns which:
 - are available in sufficient time to enable 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 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, by the local government auditor (see paragraphs 12 and 32). 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 local government auditor, but may also provide assurance on areas not appropriate to the local government auditor's certificate; and
 - have a prescribed timetable for both their preparation and local government auditor certification, with appropriate retentions to encourage compliance.
12. 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 local government auditor). Appropriate assurance should be taken 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. 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.
13. If certification by a local government auditor is or may be required, a grant-paying body must:
- secure the Chief Local Government Auditor's formal agreement that the Chief Local Government Auditor will apply his certification instructions (see paragraph 8);
 - familiarise itself with the certification instructions that the Chief Local Government Auditor provides to local government auditors in the Chief Local Government Auditor Claims and Returns Certification Instructions (available from www.niauditoffice.gov.uk);
 - engage in timely consultation with the Chief Local Government Auditor to enable on the basis of the terms and conditions and forms provided by the grant-paying body, to consult the grant-paying body and secure his written agreement to the application of his certification instructions before publication (see paragraphs 20 to 26).
14. Grant-paying bodies must deal promptly with qualified certificates on claims or returns to ensure that matters are resolved and do not recur year after year.

Local government bodies

15. 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 19), 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 local government auditor for examination. Local government auditors will not certify claims or returns where the local government body's certificate has not been completed.
16. 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.
17. 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 help the 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 certification work required.

18. 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.
19. 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 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 its local government auditor to certify a claim or return it should, before it accepts the grant terms and conditions, confirm with the grant-paying body that the grant-paying body has secured the Chief Local Government Auditor's formal agreement to apply his certification instructions on the basis set out in this statement (see paragraph 8). Local government bodies should not assume that the Chief Local Government Auditor will automatically apply his certification instructions 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.

Chief Local Government Auditor

20. 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 Northern Ireland department or public authority to any local government body subject to audit under the Order. The Chief Local Government Auditor, rather than the local government auditor, has responsibility for making certification arrangements. The framework within which the Chief Local Government Auditor will decide whether or not to apply his certification instructions in any particular case is set out in the first section of this statement.
21. In applying his certification arrangements, the Chief Local Government Auditor:
 - may do so only at the request of local government bodies in respect of categories of grants and claims where he has agreed with a grant paying body that his certification instructions should apply;
 - 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.
22. The certification arrangements made by the Chief Local Government Auditor comprise Claims and Returns Certification Instructions which local government auditors must follow. The certificate included on each claim or return requires the local government auditor to apply some, or all, of the tests in the Claims and Returns

Certification Instructions, depending on the amount claimed and the auditor's assessment of the control environment for the preparation of the claim or return.

23. 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 reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions. International Auditing Standards (ISAs), the Auditing Practices Board's Practice Note 10 and the Chief Local Government Auditor's *Code of Audit Practice* do not apply to certification work.
24. The purpose of the Chief Local Government Auditor's Claims and Returns Certification Instructions is:
 - to set out the procedures to be applied in the examination of a claim or return;
 - to leave grant-paying bodies and their auditors in no doubt as to the nature of work undertaken by auditors before giving their certificate.
25. In making arrangements under Article 25 of the Order, the Chief Local Government Auditor will have regard to what it is appropriate, practically and professionally, to expect from the certification process and local government auditors to do, whether in terms of:
 - the nature or extent of the work required;
 - the level of assurance sought; or
 - the robustness of the criteria to be applied.
26. The Chief Local Government Auditor is responsible for drafting his Claims and Returns Certification Instructions, agreeing with grant paying bodies whether these will be applied to new schemes or programmes, undertaking appropriate consultation and responding to queries from local government auditors when using the Claims and Returns Certification Instructions. The Chief Local Government Auditor consults with local government auditors where there are significant changes to certification requirements. The Chief Local Government Auditor will also deal with queries from grant-paying bodies that arise after auditor certification where further reference to the local government auditor may be called for.

Local Government Auditors

27. Local government auditors act under the direction of the Chief Local Government Auditor when undertaking certification work and, while designated to act as independent external auditors, are not performing an audit but a different form of assurance engagement, the precise nature of which will vary according to the amount of the claim or return. When giving the local government auditor's certificate on a claim or return, the local government auditor is required to carry out certification work and complete the auditor's certificate in accordance with arrangements made by the Chief Local Government Auditor.
28. Local government auditors will only certify claims and returns in accordance with the arrangements set out at paragraphs 4 to 9 of this statement.

29. Local government auditors:

- review the information contained within the claim or return and to express a conclusion whether the claim or return:
 - is in accordance with the underlying records (*claims and returns between the de minimis amount and the threshold*); or
 - is fairly stated and in accordance with the relevant terms and conditions (*claims and returns over the threshold*).
- examine the claim or return and related accounts and records of the local government body in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions. In carrying out his/her work, the local government auditor will obtain such evidence and explanations from the local government body as the local government auditor considers necessary to form a conclusion. Where testing is required, the level of testing is a matter of professional judgment according to the particular circumstances of the local government body and the claim or return as well as the local government auditor's assessment of risk.
- comply with the Chief Local Government Auditor's Claims and Returns Certification Instructions and where testing is required, to direct work to those matters that, in the 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 local government auditor acts as a professional accountant and not a legal expert;
- plan and complete their work in a timely fashion so that deadlines are met; and
- complete the local government auditor's certificate, qualified as necessary, in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and to provide local government bodies with copies of certified claims and returns, and qualification letters for information. The local government auditor's certificate and qualification letter are provided for the use of the grant-paying body and the local government body. Local government auditors should not disclose certificates and qualification letters, in whole or in part, to third parties other than those with statutory rights of access to them. The 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.

30. Because of the inherent limitations of any control structure, errors or irregularities, including fraud, may occur and not be detected. Accordingly, the 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 Chief Local Government Auditor's Claims and Returns Certification Instructions. That evidence should be regarded as being persuasive rather than conclusive.

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

- identify every error in a claim or return; or

- maximise the local government body's entitlement to income under it.

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

32. The local government auditor's certificate derives from the Audit Commission's General Certification Instructions (CI A01). It includes reference to this Statement of Responsibilities and to the Chief Local Government Auditor's Claims and Returns Certification Instructions. Local government auditors will give a certificate in this form.

Certificate of the local government auditor designated by the Department of Environment for Northern Ireland

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

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 and I have:

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

- carried out Part A tests in the Chief Local Government Auditor's Claims and Returns Certification Instructions and obtained such evidence and explanations as I consider necessary.

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

For claims and returns over the threshold#

- assessed the control environment for the preparation of this claim or return in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and, on the basis of my assessment, carried out Part A/Parts A and B* tests in the Chief Local Government Auditor's Claims and Returns Certification Instructions and obtained such evidence and explanations as I consider necessary.

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

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

Signature _____

Name (block capitals) _____
on behalf of the Chief Local Government Auditor

Date _____

**Delete as necessary*

Delete non-applicable certificate

CONTROL ENVIRONMENT AND TESTING ASSESSMENT

(for claims and returns over the threshold set by the Chief Local Government Auditor , currently £50,000)

To be completed in accordance with the guidance in the Chief Local Government Auditor's Claims and Returns Certification Instructions and to be agreed with the reviewer

<p>1 Degree of risk attached to the claim or return Record the auditor's assessment (high/medium/low) of the relative risk attached to the claim or return (for example, volume of transactions, complexity of scheme) as a starting point for assessing the control environment:</p>	wp ref
<p>2 Compilation Note briefly the method of compilation including changes from the previous period:</p>	
<p>3 Control environment Record the auditor's assessment of the control environment and decide whether or not to place reliance on the control environment:</p>	
<p>(a) Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions. <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>	

<p>(b) Control arrangements, including internal financial control and internal audit. <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. <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>(d) Expertise and relevant knowledge of preparers, including the adequacy of supervision and review. <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>(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/deCertification Instructions by the grant-paying body on previous qualification letters. <i>In a 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/deCertification Instructions following previous qualifications letters.</i></p>	wp ref
<p>(f) Analytical review <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>(g) Overall assessment. Based on sections 3(a) to (f) above, record your overall assessment of the control environment for the preparation of this claim or return and whether you have decided either to place reliance on the control environment and therefore complete only the Part A CI tests, or decided not to place reliance on the control environment and therefore complete both Part A and Part B CI tests. The basis of your decision should be clearly recorded.</p>	

<p>Testing assessment (claims and returns over the threshold (currently £50,000) where the auditor decides not to place reliance on the control environment)</p>	
<p>4 Other relevant work</p>	wp ref
<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 CI tests covered and a brief summary of work done):</p>	
<p>(b) Relevant internal audit work (include cross references to internal audit and other relevant files, note specific CI tests covered and briefly summarise work done. Where reliance is to be placed on internal audit work, appropriate reperformance by the external auditor is required):</p>	

5 Level of testing required

(claims and returns over the threshold (currently £ 50,000) where the auditor decides not to place reliance on the control environment)

Sample sizes considered necessary for testing

Any additional work necessary:

	Initials	Date
Prepared by		
Agreed by		

STANDARD TESTS

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

Part A Claims and returns over the de minimis	Yes/ No/ N/A	Carried out by	Working paper ref
1. <i>Claims over the threshold only</i> Has the control environment 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. <i>To be completed after Part B tests where applicable</i> Has an audit certificate been completed ?			
8. <i>To be completed after Part B tests where applicable</i> Has the conclusion section of the certification checklist been completed?			

Part B**Claims and returns over the threshold, where the auditor decides not to place reliance on the control environment**

	Yes/ No/ N/A	Carried out by	Working paper ref
9. 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?			
10. Are contracts reflected in the claim/return awarded in accordance with standing orders?			
11. Are charges for goods or services provided in-house made on the same basis as those charged to non-grant-earning activities?			

NOTES ON STANDARD TESTS

Test 1 (Control environment and testing assessment)

See paragraphs 34 to 39 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 CI 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 an authority 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 9 (Eligibility)

For those claims and returns to be compiled on a payments rather than an expenditure basis, the standard tests 9(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 9(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 9(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 9(b) (Eligible expenditure)

Test 9(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 9(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 9(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 10 (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 11 (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.

CERTIFICATION CHECKLIST

Conclusion

Completed by

I have:

- carried out the tests specified in the Chief Local Government Auditor's Claims and Returns Certification Instructions;
- summarised and cleared the results of testing and any matters arising after discussion with the reviewer; and
- noted any points for the next claim/return

In my view the claim/return can be certified:

- * without amendment
- * as replaced/amended
- * subject to qualification letter

--

Where amendment is required, the local government body has:

- *prepared a replacement
- *made and initialled the necessary amendments and re-dated its certificate

--

Where a qualification letter is required, a draft has been prepared in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions and has been agreed with local government body's officers as to factual content

**Delete as appropriate*

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Review

I have reviewed the working papers and am satisfied that the Chief Local Government Auditor's Claims and Returns Certification Instructions tests have been completed satisfactorily, that all matters arising have been dealt with appropriately and review notes cleared. I agree with the view above and the certificate and any qualification letter are in accordance with the Chief Local Government Auditor's Claims and Returns Certification Instructions guidance.

Date

Issue

Copy of certified claim/return on file (with copy qualification letter if appropriate).

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Copy of certified claim/return as issued, sent to local government body simultaneously with issue of original to grant paying body (with copy qualification letter if appropriate)

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NORTHERN IRELAND AUDIT OFFICE
 106 UNIVERSITY STREET
 BELFAST
 BT7 1EU

Telephone 028 90251100
 FAX 028 90251106
 E mail ian.bissett@niauditoffice.gov.uk

COVERING SHEET FOR CLAIMS/RETURNS CERTIFIED BY LOCAL GOVERNMENT AUDITOR

The enclosed document
 (type of claim or return)

for the project/financial year ended 31 March (year)

has been certified on the request of (the local government body)

by a Local Government Auditor in accordance with section 25 of the Local Government (Northern Ireland) Order 2005 and the Statement of Responsibilities of grant-paying bodies, local government bodies, the Chief Local Government Auditor and Local Government Auditors in relation to claims and returns

Only this covering sheet confirms that:

the enclosed document and any qualification letter have not been returned to the local government body after certification and have been sent direct to you by the Local Government Auditor;

the local government auditor has sent the local government body a copy of the enclosed certified document, and any qualification letter in respect of it.

You are asked to deal promptly with this certified document, taking account of any amendments and/or qualification letter noted below. Queries should normally be addressed to the local government body because the claim or return read with the Local Government Auditor's qualification letter should enable you to resolve outstanding issues. If exceptionally it is essential to address a query to the local government auditor, the query should be addressed to the Chief Local Government Auditor at the above address, enclosing this form for identification purposes, together with the certified document if appropriate.

Please note that: *(Local Government Auditor to indicate by a tick if the option(s) applies)*

4 the document replaces or amends the original and incorporates amendments made by the local government body with the agreement of the Local Government Auditor which

have no overall effect on entitlement, or
 increase the amount payable by £ or
 decrease the amount payable by £ and that

4 a qualification letter is attached.

Local Government Auditor Date File ref
 (Signature) (no.)

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.
-