



AUDIT &  
ASSURANCE  
FACULTY

# TECHNICAL RELEASE

March 2010

## FRAMEWORK DOCUMENT FOR ACCOUNTANTS' REPORTS ON GRANT CLAIMS

Technical Release AAF 01/10

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This guidance is issued by the Audit and Assurance Faculty of the ICAEW to assist reporting accountants when asked to provide reports on grant claims. The guidance does not constitute an auditing standard. Professional judgement should be used in its application.

The guidance also reflects good practice principles for grant-paying bodies and grant recipients. It imposes no mandatory requirements but is intended to be helpful to both those involved in providing special reports on grants and returns and also to those grant-paying bodies that receive and rely on such reports.

Laws and regulations referred to in this consultation paper are stated as of March 2010. No responsibility for any persons acting or refraining to act as a result of any material in this paper can be accepted by the ICAEW or the Audit and Assurance Faculty.

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# FOREWORD

Grants from government, the European Commission and other organisations can be major sources of finance for many UK public sector bodies, businesses, charities, voluntary groups and academic institutions. Recipients are often required, as a condition of the grant, to ask their auditors (or independent accountants) to report on their grant claims.

This framework document describes the process by which reports are requested from accountants and highlights some common pitfalls that, with proper planning and good communication, can easily be avoided. The objective of the framework document is to help **all parties** involved with the grant reporting process.

- **Accountants**  
Grants differ widely in nature and complexity, so requests for reports can also be wide-ranging. This framework document outlines the reporting practicalities (from planning to reporting stage) that accountants need to consider when they are asked to take on such an engagement.
- **Grant-paying bodies**  
Obtaining independent accountants' reports is often an excellent way for grant-paying bodies to gain assurance on how recipients have used their grant funding. This framework document provides some good practice principles that grant-paying bodies may find useful when designing grant schemes and which may help to make these arrangements more practicable and cost-effective for all.
- **Recipients**  
Acceptance of grant funding comes with an obligation to comply with all of the grant's conditions. It is therefore important that grant recipients have a full understanding of the reporting requirements, and also obtain confirmation that their accountant will be able to provide the required level of assurance. This confirmation should be obtained at the grant acceptance stage, rather than risk encountering problems later when failure to provide assurance can result in claw-back of grant funds.

If all the parties work together and hold discussions early and at the appropriate stages, this will make for a more effective grants process. Grant recipients will be able to access funds quickly and efficiently, while grant-paying bodies will be able to gain the assurance that they require through the most appropriate and cost-effective means. Although this guidance provides separate sections for each party to the grant, we strongly recommend that all parties read the whole document so that they are familiar with the responsibilities of the other parties as well as their own.

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# SECTION A

## BACKGROUND

1. The public sector is responsible for the provision of public services and for the proper use of public funds. An important way in which public sector bodies can achieve their objectives is by funding the activities of other organisations. Grant funding is provided by government departments and other bodies which are ultimately accountable to Parliament and/or the European Commission and which need to make grant payments in accordance with the law and the requirements of propriety, regularity and value for money.
2. Similar considerations apply to grants by or to universities, charities and businesses.
3. Grants have become an essential funding stream for many public, private and not-for-profit organisations and can be a key source of income for:
  - charitable and voluntary projects;
  - environmental and sustainability projects;
  - encouraging innovation;
  - helping businesses develop, grow and succeed;
  - developing partnerships on social projects;
  - developing international trade; and
  - increasing the UK's competitiveness and strengthening its economy (subject to state aid rules).
4. On a larger scale, grants are provided to fund capital expenditure in the UK's infrastructure (eg, the building, improvement and maintenance of our highways) or to aid in research and development of new and innovative projects.
5. UK organisations, large and small, across the private, public and not-for-profit sectors receive grant funding (referred to in this document as 'grant recipients') and significant amounts of money come from the European Commission. Each year sees a number of new grant schemes set up to help organisations. In some cases, the funding is made available directly from the grant-paying body, while in other cases it is made available through an intermediary. Some of the research grants that are now available seek to promote international collaboration.
6. Where grant funding is made available by central government on an unhypothecated<sup>1</sup> basis to, for example, local government bodies, this does not require independent accountants' reports.
7. Before any grant funding scheme is made available to grant recipients, it is designed and developed in detail by the grant-paying body. Grant schemes can sometimes be complicated and may have complex conditions that grant recipients need to understand and be able to comply with, from the application process to the receiving and spending of the money to the reporting on how it has been used. Often, one of the conditions of the scheme is for the grant recipient to obtain an independent accountant's report on whether the grant monies have been spent for the purpose for which the funding was provided and is in accordance with both the terms and conditions of the scheme and the offer letter attached to that specific grant.
8. Before issuing grants, grant-paying bodies need to decide what sort of evidence they require to confirm that grant monies have been spent only on eligible costs, or that scheme objectives have been achieved. They also need to decide whether to obtain evidence directly from the grant recipient or from independent third parties. Grant-paying bodies often decide to use accountants' reports and incorporate requirements for these into grant schemes. It is worth noting that while accountants may be best placed to report on financial information and other measurable outcomes related to financial reporting, accountants' reports may not be capable of providing forms of evidence for all scheme objectives.

<sup>1</sup> See Glossary

## EXAMPLE 1: CLARITY IS NEEDED ABOUT WHAT IS REQUIRED

For one major initiative, accountants were required to certify that grant-funded expenditure 'was in accord with Parliament's intentions'.

Where eligible expenditure is clearly defined in an offer letter or the accompanying terms and conditions, accountants will usually be able to perform suitable tests and report their findings.

However, they cannot be expected to know what was in ministers' minds when initiatives were proposed and what MPs said during debates.

### How this framework can help

9. Accountants and grant-paying bodies share a common desire to achieve greater consistency in the principles adopted in reporting on grants. There needs to be clarity about what accountants are able to provide<sup>2</sup> as well as the statutory, regulatory and propriety requirements that grant-paying bodies have to observe when requiring such reports<sup>3</sup>. Achieving greater consistency among all grant-paying bodies will be difficult. However, this framework document provides good practice guidelines to help grant-paying bodies decide what form of report they need and the best way in which to secure it.
10. This document uses as a framework the grants life cycle, from the initial design and development of a grant scheme and the drafting of offer letters through to obtaining independent accountants' reports on the use of the monies at completion of a grant-funded project. It considers the steps that each party needs to go through to make the process economical, efficient and sufficiently effective to enable the grant recipient to access the funding. It also provides grant-paying bodies with some good practice principles to enable them to decide between the types of engagement and forms of report that they can obtain from independent accountants to gain comfort that grant monies have been spent on eligible costs, for the purposes intended and in accordance with the terms and conditions of the scheme.
11. In considering the principles within this framework and in determining the type of engagement required of a reporting accountant, grant-paying bodies are encouraged to take a risk-based approach to the processes that they put into place. This should strike an appropriate balance between the size, nature and value of the grant, and take into account the perceived risks associated with the grant and the organisations that are being funded (some of which may be small voluntary organisations or community groups).
12. The framework imposes no mandatory requirements but is intended to be helpful to those involved in providing special reports on grants and returns and also to the grant-paying bodies that receive and rely on such reports.

### Scope of this framework

13. There is a wide range of support available to businesses, charities and other voluntary organisations through grants and other funding. This framework document is restricted to instances when grant funding is provided to organisations from government and charities and when the grants require reports from independent accountants. (For other funding that organisations receive which requires a report to third parties, accountants should refer to ICAEW guidance Audit 01/01, *Reporting to Third Parties*.)
14. This framework document does not cover any grants certification regime that has been set up as a result of separate legislation by statutory audit agencies such as the Audit Commission.
15. This framework document is designed to provide good practice principles in relation to reporting on grant claims and returns. It does not consider whether grant recipients have taken reasonable steps to achieve value for money and it does not seek to address whether organisations are achieving efficiency savings.

### Effective date

16. The implementation date of this framework for reporting accountants is 1 April 2010, for new grant schemes developed on or after this date. It would be helpful if grant-paying bodies were to consider applying the good practice principles in this framework for new schemes developed from 1 April 2010.
17. The new framework does not apply to existing grant schemes whose terms and conditions are already in place (including those for which the grant may be paid on a phased basis). There is nothing, however, to stop grant-paying bodies considering the good practice principles in this framework for existing grant schemes and using them as a benchmark when the terms and conditions of each scheme are reviewed.
18. Audit 3/03, *Public Sector Special Reporting Engagements – Grant Claims* will remain extant for schemes in operation before 1 April 2010 and continuing after that date where the principles outlined in this new framework have not been adopted.

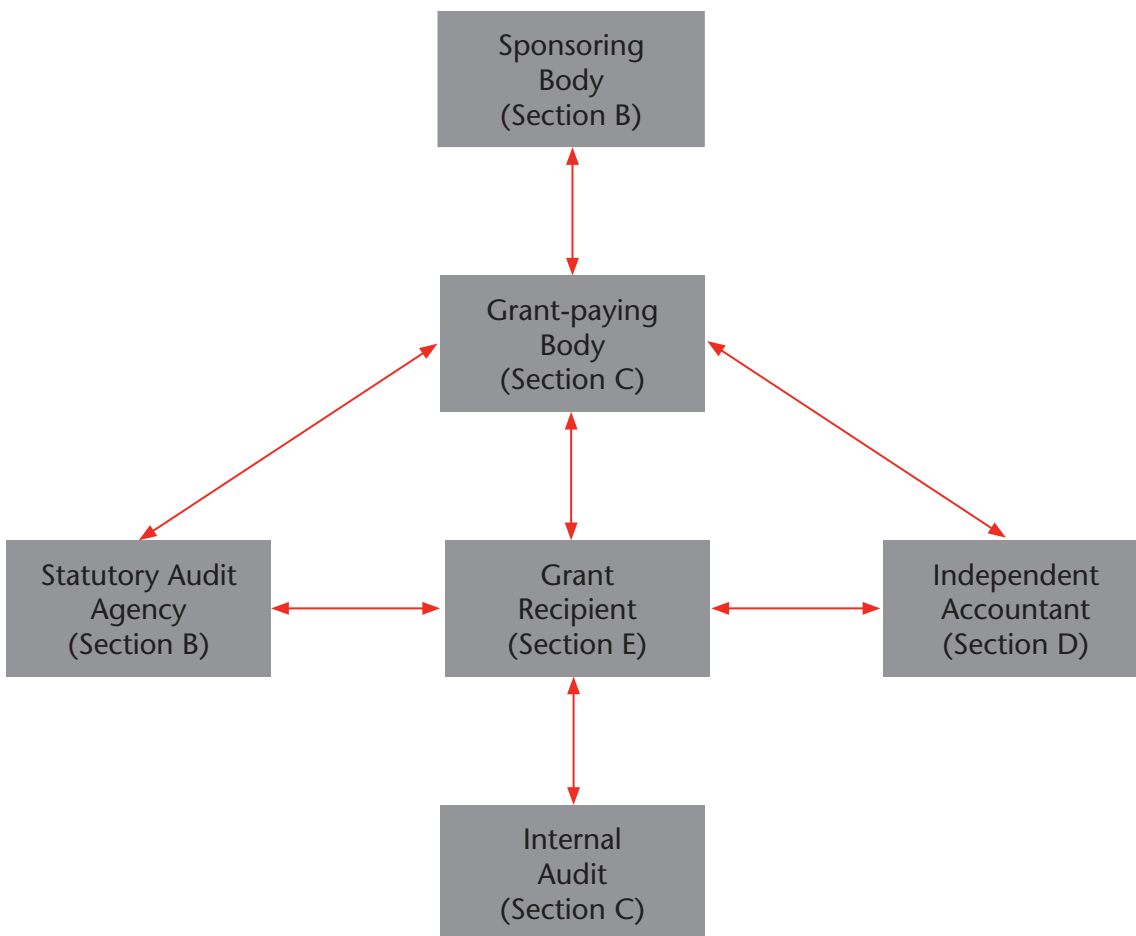
<sup>2</sup> Accountants reports to third parties are normally governed by international standards (in particular, ISAE 3000, *Assurance Engagements other than audits and reviews of historical financial information*, and ISRS 4400, *Engagements to perform agreed upon procedures regarding financial information*).

<sup>3</sup> If the grant in question is partly or fully EU-funded, requirements for accountants are set in the relevant EU legislation.

# SECTION B

## PARTIES TO THE REPORTING FRAMEWORK – THEIR ROLES AND RESPONSIBILITIES

19. There are a number of parties that may have a direct and relevant interest in the reporting arrangements for a new grant scheme:
- sponsoring bodies;
  - grant-paying bodies;
  - grant recipients;
  - partner organisations that share the work supported by the grant;
  - independent accountants; and
  - statutory audit agencies.
20. These various parties generally fall into the three main categories that are covered in this document: grant-paying bodies, grant recipients and accountants. Each category will be affected to varying degrees and there may also be different users within the various categories eg, internal audit departments of some grant-paying bodies may review the reports when they evaluate their own overall internal control frameworks. The chain of responsibility for an awarded grant can sometimes be long with a number of intermediaries. There must be appropriate consideration of the reporting requirements at each level to ensure that the needs and requirements of all parties are met. This will mean that the grant-paying bodies need to ensure that all intermediaries, at each level, have the necessary knowledge about the grant scheme, the processes and the procedures in place to deliver the grant objectives.



## Sponsoring bodies

21. Sponsoring bodies (such as the European Commission) which are the ultimate public-sector funders of an activity may choose to pass the funding through a single grant-paying body or a chain of grant-paying bodies rather than directly to the grant recipient. Sponsoring bodies can sometimes give grants directly. For example in Northern Ireland, the ministerial government departments distribute large quantities of grants. Sponsoring bodies require evidence that all monies paid out in grants to grant recipients are fully accounted for and are used in accordance with the grant conditions. Within UK central government, these sponsoring bodies will each normally have an accounting officer. This is fundamentally important, as the accounting officer is ultimately personally accountable for all funds flowing from the body and it is in part because of this that supporting evidence such as independent accountants' reports are sought. Sometimes the sponsoring body provides grants directly to grant recipients without going through a government department. In this context, these sponsoring bodies are referred to as grant-paying bodies in this framework document.

## Grant-paying bodies

22. These are the bodies that provide funding directly to the grant recipient. Grant-paying bodies usually require evidence that the monies paid out in grants are fully accounted for and are used in line with the grant conditions<sup>4</sup>. Where the grant-paying body is acting as an intermediary for a sponsoring body, then it may be responsible to that sponsoring body for providing evidence that it has disbursed the grant according to the sponsoring body's criteria while looking to the grant recipient to provide evidence of eligibility to receive the grant and to confirm that it has been used for the designated purposes. Thus the grant-paying body sets the terms and conditions of the scheme. The development of these is crucial and it is essential that the grant-paying body considers the terms and conditions carefully, consulting with all appropriate stakeholders before finalising them.

23. Grant-paying bodies will need to be clear about:

- the purpose for which they require the accountants' report;
- the type of engagement;
- the type of assurance they require;
- the format of the report;
- what they intend to do with the report once they receive it; and
- the timeliness and frequency of the report.

24. The grant-paying body will consider the initial application from the grant recipient based on the information provided. It is helpful for grant recipients to be given guidance and support to enable them to provide the necessary information at the stated times. Grant-paying bodies need to be able to provide prompt and timely clarification to both grant recipients' and accountants' queries and be able to follow up on issues raised by accountants in their reports.

## Grant recipients

25. These are the bodies receiving funds from the grant-paying body. They are responsible for providing evidence that they meet the eligibility criteria for expenditure financed by the grant-paying body, and for demonstrating that they have used the grant for its designated purpose. When making an application they need to understand the terms and conditions of the grant and in particular their responsibilities and obligations in relation to the grant.

26. Grant recipients are ultimately responsible for:

- providing evidence that the grant monies are spent in accordance with the terms and conditions of the grant and for the purposes intended (eg, progress reporting, giving notice of underspends);
- maintaining effective administrative and financial systems to support and record the transactions in relation to the grant scheme;
- keeping supporting documentation and evidence of transactions on both income and expenditure;
- operating effective systems for monitoring delivery (including partners) and internal control;
- preparing interim and final claims and returns accurately for the relevant periods and by the prescribed deadlines;
- ensuring that any requirement to obtain an accountants' report on a grant claim can be met before accepting a grant; and
- where required, engaging independent accountants to report on claims and agreeing the terms which must be consistent with the requirements of the funding conditions. Where possible, this should be a tripartite agreement with the grant-paying body and the independent accountants; otherwise, it should refer to the set of standardised terms published by the grant-paying body.

<sup>4</sup> In the UK, this will typically be in line with HM Treasury's guidance to funders, *Managing Public Money* and the Welsh Assembly Government's *Managing Welsh Public Money*. Where money has come from the EU, grant conditions will be set by the European body responsible for the grant scheme.



27. If grant recipients are unclear about their responsibilities, they need to discuss these further with the grant-paying bodies (see paragraph 24 above).

### **Partnerships and collaborations**

28. Where a grant recipient is part of a partnership (with a number of organisations receiving the grant) the partnership is usually under obligation to appoint a lead partner who will have the responsibilities outlined under paragraph 25. There should be a signed agreement setting out the roles and responsibilities of each party in relation to the delivery of the scheme. The lead partner, acting as the accountable body, may need to draw all the information together in one place. In some cases, the lead partner may be responsible for the distribution of the grant and for penalties and claw backs and may therefore take on much of the role of the grant-paying body (described under paragraph 22). The partners will need to understand that the accountants will normally have a right of access to all the papers in relation to the use of the grant monies. In some cases, there will not be a designated lead partner which means that all partners could have joint and several liability. With the increase in funding received from Europe, international collaborations are becoming increasingly commonplace: Framework Programme 7 projects, for example, are collaborations.
29. Each partner must ensure that individually it is eligible to receive the grant money and that it spends its allocation in accordance with the terms and conditions of the scheme. It must also provide the lead partner with all the necessary information that it will need to confirm this within the dates set. For ease of reference, where organisations within partnerships and collaborations indirectly receive grant funding, they are referred to within this document as grant recipients.

### **Independent accountants**

30. Accountants are normally engaged to provide an independent report on the grant recipient's eligibility to claim expenditure and/or use of the grant monies. Although the reports are issued to the grant recipient who will be the client, it is recognised that the reports are also provided for the use of grant-paying bodies and work is usually carried out in the knowledge that the grant-paying body will see the report and may rely on it (see paragraphs 41 to 43).
31. Accountants will consider the information contained within a claim or return in accordance with appropriate procedures or an agreed scope of work and will provide an accountants' report. They will need to familiarise themselves with both the terms and conditions of the grant scheme and related offer letter and in particular what information they will need in order to be able to provide the report that the grant-paying body is seeking. Accountants need to ensure that the terms on which they are engaged are consistent with the requirements of the funding conditions and relevant standards on engagements. Where possible, this should be a tripartite engagement with the grant-paying body and the grant recipient; alternatively it should refer to the set of standardised terms published by the grant-paying body. Further information is detailed in paragraph 79.
32. Accountants have a duty to take reasonable care in preparing and providing the report on a timely basis, but they should not be pressured into meeting deadlines if claims are only provided at short notice.

### **Statutory audit agencies**

33. While independent accountants are normally engaged to carry out work and provide an independent report on the grant recipient's eligibility to claim expenditure and/or use of the grant monies, statutory audit agencies can provide similar assurance. Statutory audit agencies (the National Audit Office, Audit Commission, Wales Audit Office, Audit Scotland and the Northern Ireland Audit Office) will often provide reports on grants received by public bodies as well as examine grants given by public bodies. As the statutory auditors of UK public sector accounts, some review the adequacy of management procedures for the control of grant expenditure and consider whether grants comply with legislation and provide value for money. They may also report to third parties, such as the European Commission, on specific engagements. The agencies may also act as the auditor (or appoint auditors) to local government and NHS bodies and have their own arrangements for certification of those claims which fall outside of this guidance. Some of these arrangements may be enshrined in legislation. It is often helpful to consult statutory audit agencies on the documentary evidence justifying grant-funded expenditure that the grant recipient may be required to keep.

# SECTION C

## CONSIDERATIONS FOR GRANT-PAYING BODIES

### Design of a new grants scheme

34. A specific grant scheme may include regulations that a report will be required to confirm that the money has been spent for the purpose intended and in accordance with the terms and conditions of the scheme. For new schemes that are being designed (where an Order or Statutory Instrument or Act is being drafted) or where the requirements for an existing grant scheme are being amended, it is helpful if the grant-paying body (in conjunction with the sponsoring body) considers the terms and conditions and the reporting structure.

### Setting of terms and conditions

35. Terms and conditions of any scheme need to be simple, clear and easy to follow and proportionate to the size and nature of the grant and the organisations that are being funded (some of which will be small voluntary organisations and community groups). Appendix A provides a checklist identifying examples of the types of items that a grant-paying body may wish to include when setting the terms and conditions of a grant scheme.

### EXAMPLE 2: SETTING THE TERMS AND CONDITIONS

Specifying what is (and is not) eligible for grant and what evidence the grant recipient needs to maintain is very important especially when grants are awarded. This helps avoid misunderstandings and mistakes later. Through lack of clarity, errors can damage both finances and reputations, for example:

- overpayments and a lack of supporting documentary evidence led to the European Commission demanding returns of £31m from north west England and £12m from Wales in 2008; and
- several grant-paying bodies as well as grant recipients have been wound up or reorganised after serious mismanagement of grants.

### Factors to determine the reporting structure

36. As part of the terms and conditions, grant-paying bodies will need to consider the purpose for which they need a report, what the report should cover, and the process by which they require the report to be provided.
37. Relevant factors for grant-paying bodies to consider include the following:
- What is the nature and risk assessment of the grant scheme?
  - What are the types of body that will be funded?
  - What are the size of grants that will be awarded?
  - What is the purpose of the report and is it proportionate to the relative risk, size of grant and type of bodies that will be funded?
  - Is there a minimum level of grant below which a report will not be required?
  - Are there existing sources of assurance already in place such as spot checks or internal assurance mechanisms, and therefore is a separate report needed?
  - What form of report is required (see model reports in appendix C)?
  - What are the contract terms under which the report is required? (see example 3 below)
  - Who would be best placed to provide this report and are accountants' reports an effective source for full or partial assurance?
  - If so, how will the grant-paying body secure this engagement ie, will it engage directly with the accountants or via the grant recipient and will it expect a duty of care from the accountant?
  - Where an independent accountants' report is required, will there need to be clarity about the acceptable qualifications of the accountant?
  - What will the grant-paying body do with each report once it is received?
  - Who within the grant-paying body will be responsible for analysing the information contained in the accountants' reports and acting upon this information?
  - How will the grant-paying body deal with reports that do not provide the confirmation required?

### EXAMPLE 3: STANDARDISED CONTRACT TERMS UNDER WHICH A PARTICULAR TYPE OF ENGAGEMENT IS REQUIRED

It is often the case that the grant-paying body will request a report which contains a wording requiring confirmation such as **'the claim is in accordance with the grant-paying body's offer letter including the schedules thereto'** or **'the service has been rendered in accordance with the grant agreement'**.

Many of these offer letters and grant agreements can be very lengthy and contain conditions relating to a variety of matters. These can include:

- preconditions which must be in place before a claim can be submitted;
- in the case of collaborative grants, the requirement for all participants to enter into a collaboration agreement and provide a copy to the grant-paying body;
- compliance with EU procurement procedures; and
- dates by which the client is required to submit specified claims for the various instalments of grant. There are a number of instances in which the grant-paying body then agrees to accept a late or delayed claim but does not amend the wording of the offer letter/agreement.

In order to confirm that the expenditure on which an accountant is reporting is in accordance with the terms and conditions of the offer letter, it is necessary for the accountants to be satisfied that such terms as outlined in the example above, have been complied with. This can result in:

- extra work for the accountants;
- the associated extra cost for the claimant; and
- additional reservations in a report in relation to matters already known to the grant-paying body particularly in relation to preconditions and late submission of grant claims.

#### Who is best placed to provide a report?

38. The grant-paying body needs to decide whom it requires to produce a report based on a number of factors which include:

- the risk assessment of the overall grant scheme carried out during the setting of the terms and conditions;
- the monitoring arrangements already in place;
- the amount of grant that each individual grant recipient is likely to receive eg, if the amounts are small, consider the most cost-effective method to obtain the required report; and
- if the report is required for a specialist area, who has the necessary skills and knowledge of that area to provide the required report eg, for capital works a report by either an architect or cost consultant (formerly a quantity surveyor) might be the most appropriate method of getting the necessary assurance.

39. The grant-paying body needs to consider which of the following will be best suited to provide the report that it requires:

- The grant recipient (through self-certification)** – if the value of the amount of grant allocated to a grant recipient or the number of transactions is small, it may be more cost-effective to have the grant recipient self-certify. This relies entirely on the grant recipient providing the required information accurately.
- The grant recipient's internal auditors** – this falls into a similar category to (a) above. The report would be provided by someone other than the officer within the organisation that received the grant. Although the internal auditors may not be independent of the organisation (unless the Internal Audit Service has been outsourced), they do form part of the internal control framework of the organisation and will be independent of the grant-receiving department. The cost would be minimal as they are internal to the organisation but grant-paying bodies would need to provide direction on what needs to be done and by when.
- The internal auditors of the grant-paying body** – some grant-paying bodies have large internal audit departments which may be used to carry out checks on the use of grant monies. If the number of grants was high but the value of each was low, then random spot checks could be carried out. This has the advantage that the grant-paying body can determine its own scope of work and decide whether it wishes to target certain grant recipients or categories of grant recipients. The main disadvantage is that it probably would not be able to carry out checks of all grant recipients each year so a rolling programme of visits may need to be organised. Based on the overall risk assessment and cost-benefit analysis, the grant-paying body would need to decide

whether it wanted 100% coverage of bodies over time through the rolling programme. The cost of this type of verification would usually fall to the grant-paying body. This approach could be combined with either (a) or (b).

- (d) **Specialists** – sometimes the grant is for a purpose which may need specialist knowledge. It would seem sensible in these cases for either specialists (such as environmental auditors) or a single firm that has knowledge and skills of the specialist area to provide reports for the entire grant scheme. Having a single firm carry out this work could help to reduce the costs of the engagement, as the specialists would build up knowledge of the grant scheme. It may also build the confidence of the grant-paying body in the firm. However, the firm would not necessarily have an in-depth knowledge of each organisation that has received a grant through the scheme.
  - (e) **Independent accountants who are also the statutory auditors of the organisation** – this would provide grant-paying bodies with an independent report. Using the existing external auditors could be advantageous as they will have an in-depth knowledge of the organisation. However, the work would need to be carried out under a separate engagement. Using independent accountants will also add to the fees that the organisation has to pay and these costs may not always be eligible for grant. If the grant-paying body also requires a report on the organisation's systems and controls, this would be the subject of a separate engagement.
  - (f) **Independent accountants who are not the statutory auditors of the organisation** – this would provide an independent report. However a new firm of accountants may not have the detailed knowledge of the organisation and may therefore take longer to build that knowledge before completing the work or may even decline to undertake grant claim work for entities that are not their clients. If they do agree to take on the grant claim work, the associated costs may not be eligible for grant.
40. Where the grant-paying body has carried out its cost-benefit analysis and has determined that, because of the value of the claim and the associated risks, it requires an independent accountants' report, then (e) and (f) above are likely to be the chosen or required options. It would be helpful at this stage to consult this framework document about the purpose of the report, the type of engagement, the scope of work and, finally the reporting requirements before including them in the enabling legislation, Order or Statutory Instrument or into the scheme terms and conditions. The grant-paying body needs to consider the feasibility of its intended requirements and whether what it requires, and what it wants a report on, is achievable.

#### Duty of Care

41. Where a grant-paying body has determined that it does require an independent accountants' report, it then needs to consider whether it also wants a formal 'duty of care' from the accountants and then determine the type of engagement that would be best suited to provide it with the comfort that it requires.
42. This decision will affect both how, and the way in which, the grant-paying body sets its requirements for the report. The options are:
- (a) tripartite or multipartite engagement with the grant-paying body(ies), the grant recipient and the independent accountants which allows the three parties to enter into dialogue about the purpose of the report, the type of engagement, the scope of work and the sort of report required. In this case, the accountants' report would be addressed to both the grant-paying body and the grant recipient. Although this would be ideal as the expectations of all parties would be clarified, for large grant-paying bodies where there are numerous grant schemes and a large number of grants are awarded, it may not be practical to have an engagement letter with each individual accountant.
  - (b) standardised engagement terms included as part of the terms and conditions and offer letter to the grant recipient. Standardised terms include the terms under which the grant-paying body is willing to contract with accountants at the outset. These do not require the grant-paying body to sign individual engagement letters with accountants. Appendix F provides an example of standardised engagement terms. Accountants would take on the work if they accepted the standard terms set by the grant-paying body implying a duty of care to the grant-paying body. In this case the accountants' report would be addressed to both the grant-paying body and the grant recipient<sup>5</sup>.
43. Some grant-paying bodies are clear that they are disclaiming a duty of care from accountants. If this is the case, this needs to be stated in the terms and conditions to the grant recipient so that it is explicit from the outset to all parties involved in the process. Therefore, once the grant-paying body has issued the offer letter, the engagement is between the grant recipient and the accountants, and so the accountants' report should be addressed solely to the grant recipient.

<sup>5</sup> The European Commission has developed such a standardised set of engagement terms as part of its Framework Programme 7.

## Types of engagement

44. This framework document outlines three main options for an accountants' report:
- **reasonable assurance** – provides a 'reasonable assurance' report in the form of a positive worded conclusion;
  - **limited assurance** – provides a 'limited assurance' report in the form of a negative worded conclusion; and
  - **agreed-upon procedures** – does not contain an assurance conclusion, but sets out the agreed scope of work and procedures undertaken, the findings from the procedures, along with details of any exceptions that accountants have identified from their work.
45. The advantages and disadvantages of each of these three options are set out in more detail in appendix B, with example model reports for each option in appendix C. The reporting accountants' considerations are outlined in section D of this framework document. It is important to appreciate that it is not possible to combine the three options eg, choosing the 'agreed upon procedures' option but expecting a 'reasonable assurance' conclusion.
46. If more help is needed to determine the appropriate type of engagement, grant-paying bodies may wish to consult, as appropriate, with the accountants (who will be undertaking the work on the grant claim), the statutory audit agencies and professional bodies. This will help to ensure that the expectations of all parties are met and avoid problems that can arise during the process.

## Factors affecting the type of engagement required

47. Key factors in determining the type of engagement required from accountants include:
- the information that the grant-paying body wants from the accountants' report;
  - any pre-existing legislative requirements that specify the nature of the accountants' report;
  - the level of prescription that the grant-paying body expects regarding the scope, nature and extent of the testing to be completed by the accountants (or conversely, the amount of judgement that accountants are expected to apply when undertaking their work);
  - the level of consistency that the grant-paying body expects in the scope, nature and extent of testing to be completed by accountants for any specific range of grants;
  - the cost-benefit trade-off that may exist between the different types of engagements that are available;
  - any evidence or other assurance that the grant-paying body may obtain from other means (eg, self-certification); and
  - the expectations or requirements of other stakeholders that may need to make use of the accountants' report, such as the grant-paying body's own external auditors.
48. If, for whatever reason, the form and content of the accountants' report is deemed to be paramount, or is prescribed by legislation, then this may determine the type of engagement that has to be provided. The form and content of the accountants' report will largely be determined by the type of engagement chosen. It is not possible, for example, to mandate the exact procedures that accountants must undertake (other than as a minimum), with no scope for the accountant to apply their judgement, while expecting accountants to provide a 'reasonable assurance' or 'limited assurance' conclusion. To provide such an opinion, accountants need the ability to undertake whatever procedures they consider necessary to be able to reach their conclusion.
49. It is important to note that, while there is some correlation, the type of engagement required is not necessarily directly related to the level of work undertaken by accountants. Instead, the type of engagement links directly to who controls the scope of work and the judgement that they are expected to apply in completing their work. This means that there is likely to be consistency in the work carried out among accountants who undertake an 'agreed-upon procedures' engagement where the procedures have been agreed with the grant-paying body. However, there is likely to be greater diversity when a 'reasonable assurance' or 'limited assurance' engagement is required as accountants will each be applying their own professional judgement in determining the procedures that are necessary to obtain the evidence required for the report. Further guidance can be found in appendix B, including examples of where different types of engagements may be appropriate.
50. In choosing the type of engagement, grant-paying bodies may wish to note that the cost of each engagement will depend on the size, complexity and value of the scheme and the risk associated with it. But in general terms a 'reasonable assurance' engagement may cost more than a 'limited assurance' engagement, which may in turn cost more than an 'agreed-upon procedures' engagement. The reasons for this relate to the additional procedures that accountants are required to undertake when forming an opinion, which typically involves the judgement of senior members of the engagement team. An 'agreed-upon procedures' engagement will therefore usually be the cheapest engagement and a 'reasonable assurance' engagement the most expensive.

51. In some cases, the grant-paying body may wish to consider setting a threshold (usually of its quantum of grant) below which involvement of accountants is not required, on the basis that the cost of the accountants' work is likely to outweigh the benefit of obtaining a report from an independent accountant. Whether or not the costs of a report are eligible for grant is a decision for the grant-paying bodies to make on a scheme-by-scheme basis.
52. Where independent accountants are appointed, the grant-paying body (and the grant recipients) should recognise that the accountants will normally want to have a discussion with both the grant-paying body and also the grant recipient to clarify the basis on which they may owe the grant-paying body a duty of care. Further guidance on this can be found in paragraphs 77 to 80.

#### **Scope, nature and extent of work**

53. There are a number of factors that will affect the scope, nature and extent of the work that accountants are required to undertake. These include the nature and size of the grant recipient's business, the complexity of the grant scheme, the number of transactions, the nature of the transactions and the level of error or uncertainty that the grant-paying body is prepared to accept, the experience of the grant recipient and any related parties that are involved in the grants process. The type of engagement may, with 'reasonable assurance' engagements and some 'limited assurance' engagements, require more procedures to be undertaken to form a conclusion on the grant claim.
54. For 'agreed-upon procedures' engagements, and possibly 'limited assurance' engagements, the scope, nature and extent of the required work should be agreed by the grant-paying body in advance. Accountants will then complete this work and report in the appropriate format. In determining the amount of work (including sample sizes), the grant-paying body will therefore implicitly be determining what level of overall error and/or uncertainty it is prepared to accept when assessing the claim.

#### **EXAMPLE 4: WHAT FIGURES ARE THE ACCOUNTANTS REPORTING UPON?**

Reports must be related to claims or accounts in a specified format.

A grant-paying body issued a 'certificate' for the recipient's accountant to sign – but did not provide a claim form or specify a format for the associated accounts. The accountant did not know what was required for the 'entries' referred to in the certificate.

55. If 100% of transactions need to be tested then this will have cost implications that will need to be considered; in some cases it may be appropriate (eg, for a grant with a small number of large transactions). The ability to carry out 100% testing will depend on the records maintained by the grant recipient. However, simply checking all transactions to invoices, for example, is not always proof that the payment was eligible for grant. Invoices can be amended or cancelled and prices can be manipulated.
56. In most cases, it is likely that the grant-paying body will be content for work to be undertaken on a sample basis, although testing of certain key or high value transactions might still be mandated. In this case, the size of the sample tested (whether determined by value or number) will be directly related to the type of engagement and form of report that is being provided. The larger the sample, the more likely the accountants will be able to identify any errors or ineligible expenditure. The grant-paying body may determine that the sample is related to the value of transactions eg, all those over £10,000 or 80% by value.
57. While it may be appropriate for a grant-paying body to specify minimum procedures for 'reasonable assurance' and possibly 'limited assurance' engagements, accountants will nevertheless need to apply their professional judgement in undertaking their work. To assist accountants in this, grant-paying bodies may decide to indicate the 'materiality' level to which accountants need to have regard. This will help accountants to determine the level of testing and the extent of evidence gathering that is required in order to reach their opinion. The lower the level of materiality, the larger the sample and the greater the extent of testing that accountants will need to undertake in order to provide the required conclusion.
58. Materiality has both qualitative and quantitative aspects. In addition to setting either a fixed monetary level of materiality or, more commonly, a percentage level of materiality that varies with the size of the grant claim (quantitative), grant-paying bodies may also wish to discuss with accountants certain specific types of transactions that must be tested irrespective of their monetary value (qualitative).
59. The grant-paying body needs to agree in advance the scope, nature and extent of the testing required by accountants for 'agreed-upon procedures' and possibly for 'limited assurance' engagements. This can be done in discussion with professional bodies or, if there are only a few firms of accountants carrying out the work, with the accountants themselves. If this is not done, accountants will each need to agree the scope, nature and extent of their testing on a case-by-case basis with the grant-paying body, to mitigate the risk of undertaking a level of work that does not meet the grant-paying body's needs.

60. For 'reasonable assurance' and also possibly for 'limited assurance' engagements, the grant-paying body should indicate the materiality level that accountants are expected to take note of when undertaking their work. In the absence of any such guidance, accountants may need to agree the level of materiality with the grant-paying body on a case-by-case basis or decline to accept the engagement on the basis that it is unclear what the evaluation criteria for the engagement are in monetary terms. However, both the assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement ultimately remain matters for the accountants' own professional judgement.
61. It is also important to ensure that the scope of work expected of accountants is appropriate and deals with matters that accountants can reasonably be expected to test and on which they form judgements. If suitable criteria for evaluation do not exist and/or cannot be agreed with accountants, it will not be possible for accountants to undertake the work, or specific aspects of the work. This is likely to lead to qualification of the accountants' report or to accountants being unable to accept the engagement.

#### EXAMPLE 5: HAVE 'PERFORMANCE AND BUDGETARY INFORMATION' BEEN REPORTED ON BY THE RECIPIENT ALONE?

Sometimes, an investment funded by a grant will generate savings for recipients' revenue budgets. This was the case with a grant for waste minimisation and recycling, as future landfill tax would be less than if tipping continued at previous levels. However, the grant-paying body wanted assurance that recipients would maintain their budgets to safeguard local authorities' expenditure on waste management.

Accountants only needed to report on the expenditure on the new activities as local authority treasurers were left to self-certify that savings were 're-invested' in waste management and not diverted to other activities.

#### Format and wording of the accountants' report

62. As already noted in paragraphs 44 to 52, the type of engagement that is being sought by the grant-paying body will determine the form and content of the accountants' report. Model examples of accountants' reports relating to the three types of engagements can be found in appendix C.
63. Care should be taken when the grant-paying body is required to use terms and/or expressions in the accountants' report which are prescribed by legislation or the grant-paying body intends to specify wording for accountants' reports. Undefined words can lead to misunderstandings. It is therefore important that prescribed terms or expressions are clearly defined at the outset. Accountants should be able to add to any wording prescribed by legislation and modify wording set by the grant-paying body especially if accountants are expected to provide an opinion. Without the ability to add to or amend the wording of the report, accountants may be forced to qualify the report or even resign from the engagement, simply because they are unable to sign up to the prescribed wording which does not reflect their conclusion and opinion on the grant claim.
64. In practice it should be noted that amendments to any template reports are likely to be fairly common and will set out significant issues and/or additional matters that, in the opinion of the accountants, need to be brought to the attention of the grant-paying body and the grant recipient. The ability to amend any standard report wording expected by the grant-paying body may therefore be of direct benefit to the grant-paying body where it provides additional information that is of value when assessing compliance with the grant claim terms and conditions by the grant recipient.
65. Accountants are not bound to sign any form of report (pre-printed or otherwise) that has not been discussed with them or that their professional body has not recommended (nor are they obliged to sign any form even if their professional body has recommended it). If the basic form and content of the report is to be specified, then it would be helpful to discuss this with the professional bodies of the accountants who are likely to be involved in undertaking the work on the grant claim. Often, an early discussion will indicate whether what the grant-paying body is considering is something that accountants will be able to provide a report on. It would also be helpful to discuss the form of report with any other users of the report (eg, the grant-paying body's external auditors) before the start of the engagement. Early discussion will help ensure that expectations of all parties are understood and can be met and avoid problems that can arise during the reporting process.
66. Appendix D includes examples of words that often give rise to problems for reporting accountants. In drafting the specification of accountants' reports it is important to use language that is free from ambiguity. For example, undefined terms such as 'review' or 'reasonable' are not recommended unless there is a clear definition.

## Matters to consider at report stage

67. The grant-paying body may wish to:

- determine a materiality level that supports the level of error and/or risk that it is prepared to accept;
- ensure that it will understand the impact of any errors;
- consider the implications of the various types of reports received;
- be able to interpret the qualifications in accountants' reports or identify issues and make judgements and take appropriate action about whether:
  - to ask accountants to carry out further work (where, for example the accountant has indicated missing records); or
  - not to pay future instalments of grants; or
  - claw back current grants or instalments already paid;
- have a system in place to identify late or missing reports and take appropriate action (either follow up with the grant recipient, suspend payments, impose a greater level of retention or ultimately claw back); and
- have a system in place for accountants to enter into early dialogue with the grant-paying body when they identify significant errors or deficiencies in the grant recipient's records.

68. Rejection of a report or delays or refusal to pay future grants should not solely be because the report does not reflect a standard form of words. The terms and conditions of both the grant scheme and the offer letter need to identify the trigger that will lead to rejection of a report or delays or refusal to pay future grants. Where accountants' reports are frequently 'qualified' for one particular reason, then the grant-paying body could issue guidance to clarify how the particular issue should be considered and dealt with (and update its definitions of eligibility for anything that is not clear).

### EXAMPLE 6: CLAW BACK OF GRANT MONIES WHERE THE ACCOUNTANT DID NOT USE THE PRESCRIBED FORM OF WORDS

A local authority was the lead accountable body for a European-funded Action Plan. The Action Plan sought to address the lack of provision of business advice to SMEs in particularly deprived wards. The actual delivery of the Action Plan was split into a number of sub-projects delivered by third party business advice providers. Each sub-project was required to complete and submit an annual statement of expenditure with an independent report.

The accountants to one of the sub-projects issued a report whose wording was not an exact word for word match to the pro forma issued by the local authority. The local authority rejected the report and sought to commence claw back of the entire monies claimed by the sub-project. The meaning and context of the issued report was the same as the pro forma report.



# SECTION D

## CONSIDERATIONS FOR REPORTING ACCOUNTANTS

69. Before taking on the engagement accountants will need to clarify:
- the purpose of the request for the report;
  - the scope of work;
  - to whom they will be reporting;
  - to whom they will owe a duty of care; and
  - what the report will be used for.
70. Accountants will want to understand whether the report is required to confirm the eligibility of expenditure and/or whether the report will be used to confirm that the grant has been spent in accordance with the particular terms and conditions and for the purposes intended. It is important that there is a clear understanding of the scope and purpose of the engagement among all the parties.
71. Accountants will also need to confirm that grant recipients understand their responsibilities in relation to the terms and conditions of the grant and the need to maintain effective systems and documentation to record the transactions in relation to the grant scheme. Accountants may wish to consider whether they need to obtain written confirmation from the grant recipient acknowledging their responsibilities. It will also be useful for accountants to understand at the outset who is paying for the report: the grant-paying body or the grant recipient.
72. It is important that before agreeing to take on the engagement, accountants consider the need to discuss with the grant recipient the form of report that the grant-paying body has requested and whether the accountants will be able to provide this. Accountants should not sign reports until they have been able to perform sufficient work and obtain sufficient evidence to support their findings, opinions and/or conclusions. In all cases, accountants have the right not to accept any engagement if they consider that the required wording is too onerous or where the wording has not been properly defined. Where they do not feel able to accept such responsibility they should decline this work.

### Engagement terms

73. In arriving at an understanding about who may have an interest in the accountants' report and for what purpose, accountants need to know who is involved in the engagement, who may wish to rely on it and the parties that may suffer a direct loss.
- Grant recipient – will require the report for the purpose of meeting one of the grant requirements. Failure to obtain an accountants' report could result in the grant-paying body clawing back grant monies that have already been paid to the grant recipient.
  - Grant-paying body – may require a report to confirm that the grant recipient's claim is limited to eligible costs and/or that the grant monies have been spent in accordance with both the terms and conditions of the grant scheme and the offer letter. The grant-paying body may be relying on the report even when the report is not addressed to the grant-paying body.
  - Other parties – a sponsoring body or a match funder which has indicated that it will also seek to rely directly on the accountants' report, particularly when it is trying to satisfy itself of the regularity and propriety of grants distributed by the grant-paying body for which it is ultimately accountable.

Any party that will rely on the report and who will suffer a direct loss should consider becoming a party to the engagement (see paragraphs 41 to 43).

74. There may also be other bodies that are entitled to view the reports and accountants will need to understand which bodies may choose to use their reports, for what purpose and whether they will rely on the report but will not suffer a direct loss. For example:
- sponsoring bodies – that are reviewing the systems and processes in place at the grant-paying body in relation to the administration of the grant scheme rather than reviewing the accountants' report itself may choose to review a sample of accountants' reports as part of their own review of the grant-paying body;
  - audit agencies – connected with any of the above parties (including the European Court of Auditors);
  - parliament; and
  - devolved administrations and legislatures.

There may be other bodies or individuals that wish to have access to the accountants' report or may have a statutory right of access. The extent to which they may place reliance on the report is not always clear.

75. When taking on this work, accountants may have a responsibility to those that receive the report, rely on it and who suffer a direct loss as a result of that reliance. In such cases, and where all the parties are known, the expectations and/or scope of work should normally be determined with the parties in the engagement. In some cases, this may be difficult to do as the grant-paying body may already have prescribed the scope of work and its expectations as part of its terms and conditions. It would, however, not be reasonable to expect accountants to accept a responsibility to third parties whose interest in the work may not have been known at the time that the work was accepted and performed.
76. Accountants will need to consider and apply appropriate engagement acceptance procedures in order to assess the risks associated with taking on any engagement of this nature. They will then determine whether, in the light of their assessment and the risk, it is appropriate to take on the engagement and if so, on what terms.

#### Agreeing on engagement terms

77. If the accountants are not the grant recipient's statutory auditors, then they may wish to include language within their engagement letter which clarifies their responsibilities and liability to the statutory auditor of the financial statements. The two engagements are separate, with the statutory auditors being responsible for their own audit report. The statutory auditors have to determine what reliance, if any, to place on the accountants' work as part of the evidence for their audit. For the same reasons, the accountants should include similar clarifying language within their engagement letters to the auditors of the grant-paying body.
78. If the accountants are the statutory auditors of the grant recipient, then they will need to carefully manage their relationship for these engagements with the grant recipient and any third parties. Both the grant recipient and the grant-paying body will need clarification that these engagements are separate from the statutory audit engagements. To provide this clarity, accountants may, within the engagement terms, confirm that their responsibilities in relation to the statutory audit engagement are separate and carried out for a different purpose from the engagement to provide a report on the grant funding.
79. Depending on the circumstances, accountants may wish to consider the approach outlined in AAF 04/6, *Assurance Engagements: Management of Risk and Liability*. For the purpose of this work, the most appropriate arrangements for accountants to enter into will be:
  - (a) a tripartite or multipartite engagement contract with the grant recipient and the grant-paying body, accepting that they owe a duty of care not only to the grant recipient (who is their client) but also to those grant-paying bodies, including provisions limiting liability if appropriate (recognising that such a contract may not be achievable where there are numerous third parties).
  - (b) an engagement with the grant recipient, with the facility available for other third parties to enjoy a duty of care from the accountants if they accept the relevant terms of the engagement which have been previously agreed with the grant recipient as if they had signed that letter when it was issued including the same provisions limiting liability<sup>6</sup>.
  - (c) if the risks are considered to be high eg, because the engagement itself is considered to be very complex or the accountant is unable to agree acceptable terms with the grant recipient (and/or grant-paying body), then the accountants could consider declining the engagement.
80. Where possible, the terms of engagement need to be agreed by all the parties to the engagement with the agreed terms recorded in writing in the engagement letter. Appendix E provides an example of model terms. In reality, where grant-paying bodies are administering a large scheme, it may not be possible or feasible for the grant-paying body to enter into individual tripartite or multipartite engagements for each and every grant allocated to a grant recipient. However, it may be possible for the grant-paying body to publish standardised engagement terms as part of its terms and conditions, outlining the basis on which they are willing to become a party to an engagement (see example 7 below).
81. Appendix F provides an example of a set of standardised model terms where the grant-paying body is offering to contract, at the outset, through its terms and conditions. Accountants should, however, note that the absence of a tripartite, multipartite engagement letter or a standardised set of terms does not in itself mean that a duty of care is not owed to the grant-paying body. If the purpose for which the grant-paying body has requested the report is clear within the grant terms and conditions and it has clarified that it seeks to rely on the report as a condition of the grant, and if the accountants take on the engagement with this knowledge, then there may be an implied duty of care.

<sup>6</sup> This will require the consent of the grant recipient which should be obtained in the engagement letter.

## EXAMPLE 7: STANDARDISED ENGAGEMENT TERMS

Some grant-paying bodies already provide standardised engagement terms for grant agreements. One example is the Department for Business Innovation and Skills (BIS) with its Grant for Business Investment (GBI) scheme.

Where a grant-paying body provides standardised engagement terms, it does not need to sign an engagement letter as it offers to contract with the accountant on the model engagement terms. Once the offer is accepted by the grant recipient and the accountants upon signature and submission of a report to the grant-paying body, the necessary contract is formed between the grant-paying body, the grant recipient and the accountants.

A separate engagement letter may also be agreed between the grant recipient and the accountants but it should be noted that the terms set out in the separate engagement letter do not bind the grant-paying body, other than those terms set out in the standard terms issued by the grant-paying body.

### Liability

82. Accountants in the UK are advised to address their reports to grant-paying bodies when the basis and extent of their liability to the grant-paying body is clear and agreed within an engagement letter. In deciding and agreeing appropriate engagement terms in England and Wales, accountants should refer to the guidance in the ICAEW's *Members' Handbook Statement 9.1: Managing the professional liability of accountants* and consider the consequences of the Contracts (Rights of Third Parties) Act 1999.
83. Possible ways of arriving at a liability limit and through separate negotiation are:
  - to limit the liability to the amount of the grant; and/or
  - cap it at a fixed monetary amount.
84. In most cases, the grant-paying body will seek to recover losses from the grant recipient directly but may seek to recover losses from accountants where it believes that the accountants have been negligent in carrying out their work, or in providing the report.
85. One option is to limit liability to that proportion of the loss or damage suffered by the grant-paying body for which accountants have contributed to the overall cause agreed between the parties or, in the absence of agreement, it will need to be determined by the courts (subject to an upper limit).
86. If clarification language is used in the report, accountants will need to consider whether it is reasonable and therefore likely to be effective taking account of the requirements of the Unfair Contract Terms Act 1977. Bear in mind that such wording is not always effective. Accountants are advised to seek their own independent legal advice on the effectiveness of any clarification language that they intend to include within their reports. Example wording for limiting liability and clarification language are provided in Appendices G and H.

### Scope of Work

87. Accountants need to be clear about what the grant-paying body requires a report on. The grant-paying body may want a particular outcome and may also want the work to be carried out in a specific way. Accountants will need to consider whether they can carry out the work requested and, if they are able to, consider what they need to do to provide the form of report requested. If the requirements are not clearly expressed in the terms and conditions of the grant scheme and the offer letter, accountants will want to clarify what is requested of them from the outset, including the type of engagement requested ('reasonable assurance', 'limited assurance' or 'agreed-upon procedures').
88. Depending on the type of engagement that is required, accountants will determine the procedures that they will need to carry out (including the materiality levels and any sampling methods). Accountants will need to determine whether what they have been requested to report on is actually capable of being reported on.
89. The level of testing carried out depends on the type of engagement required and should, where possible, be agreed with the grant recipient and the grant-paying body at the outset of the engagement. The higher the assurance required, the more detailed the testing is likely to be. The more testing that is carried out, the more likelihood there is of any errors being detected. It is worth noting that, however detailed the testing, not all errors (whether deliberate or otherwise) may be detected.

## Format of report

90. The terms and conditions of the grant scheme and the offer letter should make clear the type of report required which will help to determine the type of engagement, the scope of work and form of report.
91. Agreeing the words and form of report at the outset helps to avoid disagreements with the grant recipient or the grant-paying body at a later stage. The accountants' report should reflect the agreement set out in the engagement letter and be supported by the work carried out. The report should make clear:
  - for whom it is prepared, who is entitled to rely on it and for what purpose;
  - that the engagement was undertaken in accordance with the agreed engagement terms;
  - the work performed and the findings; and
  - a conclusion or report which can be supported by the work done.
92. Accountants should take care to use clear and precise language to describe specific terms used (such as 'enquiry' or 'inspection').
93. Accountants and grant-paying bodies need to note that any form of report that has been endorsed as acceptable by the accountants' professional body does not necessarily bind accountants but they may wish carefully to consider the reasons behind the agreement with the professional body before deciding not to agree to the requested form of words. Accountants will also need to bear in mind that some wording included within prescribed forms of reports might be wording that is enshrined in legislation. If this is the case, the grant-paying body will normally have defined the words clearly to avoid any misunderstandings later.
94. Appendix C provides example pro forma reports when either a 'reasonable assurance', 'limited assurance' or 'agreed-upon procedures' engagement is agreed.

## Confidentiality issues

95. In carrying out this work, accountants need to be clear about and understand their responsibilities around client confidentiality.
96. Accountants need to understand that there may be statutory rights of access for parties (such as government departments or audit agencies) that need to see their reports (and possibly working papers) for statutory purposes. This may be either to clarify or confirm the processes that have been put into place by the grant-paying body to allocate and verify the use of grant monies or because they have a statutory duty to report to Parliament matters of significance which may arise out of their reviews.
97. The accountants' working papers are their legal property and, except where there is a statutory right of access, accountants have a right to restrict or decline access to them. The working papers may contain confidential information about the grant recipient and, by permitting access to them, accountants could be acquiring a significant legal risk. However, refusing access could be unhelpful to the grant recipient and those requiring the access. There are some steps that the accountant might wish to consider taking. Before permitting such access, accountants need to confirm, first whether there is a statutory right of access (complying with these will not breach professional confidentiality). If there is no statutory right of access, the accountants need to establish the reasons for the access and agree a protocol with the body that is making the request on how the access may be obtained so that the interests of all parties can be protected.
98. Access to the accountants' working papers may be permitted – while managing liability risks – by using client authorisation and release letters. By using client authorisation the grant recipient gives the accountants written authorisation to provide access, information and explanations and agrees that the accountants will not have any liability to the recipient as a result. Release letters entail the body requesting access to agree, among other things, that the accountants do not assume any duty or liabilities to the body as a result of giving such access.

## **Data protection**

99. Data protection laws apply to the personal data of individuals. Relevant information may contain personal data (for example about employees or about sole traders with whom the client does business). However, the accountant may be obliged to provide access to relevant information by legislation. Therefore, where personal data is disclosed, as long as the information being provided is necessary to discharge that legal obligation, there are no data protection risks for accountants.

## **Fraud and illegal acts**

100. In the course of performing procedures, accountants may become aware of uncorrected errors, fraud or illegal acts attributable to the grant recipient's system, management or employees which may affect the grant claimed.

101. Unless clearly inconsequential, accountants determine from the directors of the grant recipient whether this information has been communicated to the grant-paying body. If the directors have not communicated this information and are unwilling to do so, the accountants inform the audit committee, where there is one, or a group of directors with equivalent authority. If the audit committee or equivalent does not respond appropriately, the accountants need to consider whether to resign from the engagement. Accountants generally are not required to confirm with the grant-paying body that the grant recipient has communicated such information. Accountants may, however, wish to consider whether they have other reporting requirements such as one in relation to reporting misconduct by another chartered accountant or requirements under other relevant legislation.

## **Freedom of information**

102. The Freedom of Information Act 2000 aims to increase the transparency and accountability of public bodies and the way in which such bodies carry out their work. Public authorities are listed in the Act. Broadly speaking a public authority is defined by the Act as a UK-wide public authority or a public sector body in England, Wales or Northern Ireland (similar legislation exists in Scotland). The public has a statutory right to access the recorded information held by a public authority from 1 January 2005.

103. In relation to an accountants' report, therefore, unless a valid exemption applies, the public will have a right to see an accountants' report in relation to a grant scheme that falls under information held by a public authority. Obtaining information under the Freedom of Information Act 2000 does not create a duty of care between the accountants and the requestor.

# SECTION E

## CONSIDERATIONS FOR GRANT RECIPIENTS

### Application process

104. When grant recipients make an application for a grant they will need to understand the terms and conditions of the grant scheme. Grant recipients are responsible for providing evidence to the grant-paying body that they meet the eligibility criteria for receipt of grant funding. This will be at the application stage. The grant-paying body will normally specify what documentation it requires to confirm eligibility and it will be the grant recipient's responsibility to provide the correct documentation directly to the grant-paying body with the application.

### Grant offer and acceptance

105. Once a grant-paying body has processed an application, checked and confirmed that the eligibility criteria for a grant have been met and the application for a grant has been approved, it will send a grant offer letter to the grant recipient. The grant offer letter will contain, or refer to, the detailed terms and conditions that the grant recipient must comply with in order to receive the grant.

106. Acceptance of grant funding comes with an obligation to comply with all of the grant's conditions. It is therefore important that grant recipients have a full understanding of the terms and conditions including their responsibilities, obligations and the reporting requirements. If grant recipients are unclear about their responsibilities and obligations, they will need to clarify these with the grant-paying body and preferably at the acceptance stage.

### Responsibilities and obligations

#### Systems and documentation

107. Grant-paying bodies will provide detailed guidelines to grant recipients so that grant recipients can monitor compliance with the grant conditions. If any aspect of the requirements set by grant-paying bodies is not clear, grant recipients will need to obtain clarification from the grant-paying body and ensure that they fully understand their obligations.

108. The grant-paying body will set out the documentation that it will require as evidence. It will be the grant recipient's responsibility to set up and maintain sufficient and effective administrative and financial systems which support and record the transactions (both income and expenditure) in relation to the grant scheme and which will provide the relevant supporting documentation to evidence the transactions.

109. Grant recipients will also need to maintain effective internal control and operating systems which monitor the delivery of the scheme's objectives (including, where appropriate, delivery by partner organisations).

#### Interim claims

110. Grant monies may be paid at the start of a scheme and at regular intervals during the course of the financial year or grant period. As part of the terms and conditions of the scheme, the grant-paying body may require the grant recipients periodically to submit evidence that they are spending the grant monies in accordance with the terms and conditions of the grant scheme and in accordance with the purposes intended.

111. If evidence is required periodically, the grant-paying body will normally require this through the submission of an interim claim or return. The terms and conditions of the scheme will provide details of how interim claims or returns can be submitted. Evidence of expenditure is usually provided through progress reporting at regular intervals during the period of the grant, identifying crucial information such as underspends against profiles. It is the grant recipients' responsibility to ensure that interim claims and progress reports provide relevant and accurate information, reflect the relevant period and are submitted by the prescribed deadlines.

### Final returns

112. At the end of each financial year of the grant scheme and also at the completion stage (if the grant scheme extends over a number of years), grant recipients will be responsible for providing evidence and an independent accountants' report that they have spent the grant monies in accordance with the terms and conditions of the grant scheme and for the purposes intended.
113. The terms and conditions will provide details of how periodic and final claims and returns should be submitted. It will be for the grant recipient to ensure that the requirements for obtaining and submitting an accountants' report on a grant claim or return can be met before accepting a grant. They should therefore obtain confirmation that their accountants will be able to provide the required report within the time required. This confirmation should be obtained at the grant acceptance stage, rather than risk encountering problems later when failure to provide the report can result in claw-back of grant monies.
114. Where appropriate, the grant-paying body will, in the terms and conditions, provide details of the reporting structure that it requires to be in place, including:
- the form of report required;
  - the contract terms under which the report is required;
  - who would be best placed to provide this report;
  - how the grant recipient should secure the engagement (ie, does it engage directly with the accountants or will the grant-paying body be a part of the engagement?);
  - the qualifications that the accountants will be expected to have;
  - the information that the grant recipient will be required to maintain and submit to the accountants in support of the year end or final claim or return;
  - where, when and to whom the report is required to be submitted; and
  - the process that the grant recipient will need to go through if accountants are unable to provide the confirmation that the grant-paying body requires.

### Duty of care

115. Grant-paying bodies will determine whether they want a formal duty of care from accountants and this will determine the type of engagement that they will be willing to enter into with accountants (paragraphs 41 to 43 in section C). The accountants' report will be addressed to the grant recipient. If the grant-paying body agrees to enter into a tripartite or multipartite engagement or provides standardised engagement terms, the accountants' report will also be addressed to the grant-paying body. The terms and conditions should explicitly state all the parties that are involved in the process and thus, to whom the report should be addressed.

### Types of engagement

116. It will ultimately be for the grant-paying body to determine the type of engagement it requires. The type of engagement will then determine the scope, nature and extent of work that accountants will carry out and the format and wording of the accountants' report will follow accordingly. The options and relevant factors affecting the type of engagement that the grant-paying body may decide upon are laid out in paragraphs 44 to 52 in section C. The terms of the engagement will partly be determined by the type of engagement chosen. More information on this is provided in paragraphs 73 to 81 in section D.

# APPENDIX A

## LIST OF TERMS AND CONDITIONS THAT COULD BE USEFULLY INCLUDED IN A GRANT SCHEME TO PROVIDE CLARITY

1. Glossary and definitions of terminology used eg, expenditure defrayed.
2. The stages of the application process.
3. What is and isn't eligible eg, cost, location, who can apply?
4. The rate of support.
5. Maximum approved expenditure and maximum amount of grant on offer.
6. Whether the grant is for capital/revenue or both and if the grant is net of any income.
7. Virement between capital and revenue or between various types of capital and revenue.
8. Any restrictions on sourcing equipment or supplies.
9. The systems, procedures and supporting documentary evidence (such as time records) that the grant recipient will be required to maintain, covering the length of the period, for how long and for whom.
10. Clarity about what they require a report on and that what they want a report on can actually be reported on.
11. The accounting policies (including whether the grant return is completed on an accruals or payments 'defrayed' basis; and apportionment methods for overheads).
12. Process to be followed when there are instances of double counting/double funding, matched funding, additionality, contributions in kind, expenditure defrayed.
13. Process to be followed when errors occur, how these need to be managed (eg, the method of allocating overheads to the funded activity; the recording of time spent on the project; the treatment of revenue attributable to the funded activity) and intervention options (eg, suspension of payments; re-profiling of future expenditure; holding retention; clawback/termination of grant).
14. Process to be followed when eligible expenditure exceeds the funding limit and what happens if part of the expenditure is disallowed.
15. Cut off points (such as deadline dates for eligibility, timing of interim and annual reports, independent accountants' reports) as there need to be workable periods/deadlines for recipients to compile claims and then for the accountants to do the work necessary for the report.
16. Timeliness of and compliance with the grant-paying bodies reporting requests.
17. If the grant is allocated to a partnership, then clarity around the responsibilities of each partner in relation to the scheme as a whole.
18. Accessibility and availability of the terms and conditions (possibly on a website).
19. Format of the return that the grant recipient will be required to submit (ensuring that it adds up).
20. Format of the accountants' report (bearing in mind the issues highlighted in paragraphs 47 to 66 of this framework document).
21. A contact name for queries in relation to the engagement terms and reporting (in the offer letter).
22. For UK grants, a reference to the appropriate UK legislation or regulations that the grant scheme is governed by.
23. For European grants, a reference to the appropriate European Directive or conditions of aid.

The key issue here is that a grant-paying body needs to consider and identify which terms and conditions are relevant for a particular grant scheme, what it is that they want a report on, and who will provide the report. This is, by no means, an exhaustive list. There may be other items that are not included here which may also be relevant to have in a set of terms and conditions. It is often helpful to consult statutory audit agencies on the documentary evidence that the grant recipient may be required to keep to justify the expenditure.



# APPENDIX B

## TYPES OF ENGAGEMENT – OPTIONS ANALYSIS

Type of Engagement	Description	Nature of Report	Pros	Cons
Agreed-upon Procedures	<p>The <b>exact</b> scope of work (eg, type of test, sample sizes etc) is agreed by the grant-paying body, grant recipient and the accountant.</p> <p>or</p> <p>the reporting accountant follows the exact scope of work set out in the grant claim terms and conditions, or other relevant guidance, that have previously been agreed by the accountant or representative body.</p> <p>The accountant then undertakes these procedures and <b>reports the results</b>.</p>	<p>A <b>detailed report</b> setting out the work undertaken (or making reference to the scope of work set out in the tripartite engagement letter or making reference to the source of any pre-agreed procedures) and the results of the testing.</p> <p>This is a <b>factual report</b> and <b>no conclusion is given</b>.</p>	<ul style="list-style-type: none"> <li>• Clarity about the scope, nature and extent of the testing agreed at the outset.</li> <li>• Grant-paying body can set out the overall template for the report in the light of its requirements.</li> <li>• Any exceptions that are identified are set out in the report.</li> <li>• The grant-paying body and other potential users of the report (eg, the grant-paying body's external auditors) are able to reach an informed judgement based on the information provided in the report.</li> <li>• Simple engagement from the accountant's perspective and therefore, all other things being equal, cheaper than other options.</li> <li>• Professional guidance in place in the form of International Standard on Related Services (ISRS) 4400, <i>Engagement to perform agreed-upon procedures regarding financial information</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Time needs to be set aside to agree the scope, nature and extent of work upfront.</li> <li>• The accountant will only complete the required work and will not undertake additional procedures even if they identify errors (unless this is required by the scope of work).</li> <li>• No conclusion is given. Therefore the grant-paying body is left to interpret the results and make a judgement.</li> <li>• The grant-paying body may not have the time/skills/ resources to interpret the report/reach a judgement.</li> </ul>

Agreed-upon procedures may be the most appropriate type of engagement if the grant-paying body wants to set the procedures to maintain consistency in the way that accountants carry out the work:

- obtain the results over compliance with the terms and conditions at the lowest cost (although this can be expensive if the procedures are long and involved);
- ensure consistency in the scope, nature and extent of work undertaken by reporting accountants; and/or
- receive a report setting out details of the work undertaken, the findings and all of the exceptions noted.

Agreed-upon procedures is unlikely to be the most appropriate type of engagement when the grant-paying body:

- wants an assurance 'opinion' from a reporting accountant; and/or
- wants accountants to apply their judgement in determining the scope, nature and extent of the work required to provide an assurance opinion on the grant claim.

# APPENDIX B

## TYPES OF ENGAGEMENT – OPTIONS ANALYSIS CONTD

Type of Engagement	Description	Nature of Report	Pros	Cons
Limited Assurance	<p>The scope of work is agreed by the grant-paying body, grant recipient and the accountant or the accountant follows the scope of work set out in the grant claim terms and conditions, or other relevant guidance, that have previously been agreed by the accountant or representative body.</p> <p>The accountant then undertakes these procedures and <b>provides a 'limited assurance' conclusion</b> on the grant claim.</p>	<p>A 'limited assurance' <b>conclusion</b> on the grant claim in the form of a <b>negative assurance statement</b> (eg, 'having carried out the procedures stated (either as set out in the engagement letter or in accordance with an agreed framework), <b>nothing has come to our attention</b> to suggest that the grant has not been spent for the intended purpose'.</p>	<ul style="list-style-type: none"> <li>• Where the exact scope of work has been agreed, everyone is clear as to the scope, nature and extent of the testing that is undertaken as this is agreed at the outset. However, this does not preclude or mitigate the need for the accountants from performing other procedures in order to gather sufficient evidence to reach their conclusion.</li> <li>• The accountant provides a conclusion on the grant claim in the form of a negative assurance statement. There is no need to 'interpret' the results, unless there is a qualified conclusion.</li> <li>• Professional guidance in place in the form of International Standard on Assurance Engagements (ISAE) 3000, <i>Assurance engagements other than audits or reviews of historical financial information</i>.</li> <li>• May be cheaper than a 'reasonable assurance' engagement.</li> </ul>	<ul style="list-style-type: none"> <li>• No accepted framework currently in place covering these types of engagements. 'Limited assurance' engagements can therefore take various forms. These can range from being similar to agreed-upon procedures work, through to engagements that are very similar to reasonable assurance.</li> <li>• As a result, such 'limited assurance' engagements can be difficult to agree in practice and agreed-upon procedures or a 'reasonable assurance' engagement may be more appropriate.</li> <li>• Requires 'materiality' to be set or agreed by the grant-paying body, so that reporting accountants can determine the scope, nature and extent of the testing with the expectations of the grant-paying body in mind.</li> <li>• The grant-paying body simply receives a conclusion, rather than a detailed report, unless additional reporting is specified (eg, details of all exceptions identified).</li> <li>• Readers of the report may not know the exact scope, nature or extent of the work undertaken by the accountant, unless the engagement letter is provided or additional reporting is specified.</li> <li>• May be more expensive than an agreed-upon procedures engagement.</li> </ul>

The differing nature of 'limited assurance' engagements means that it is difficult to comment on them in general terms. In most cases, it is likely that agreed-upon procedures or a 'reasonable assurance' engagement will provide the most appropriate type of assurance. Grant-paying bodies are therefore recommended to consider these options before deciding if a 'limited assurance' engagement is appropriate.

# APPENDIX B

## TYPES OF ENGAGEMENT – OPTIONS ANALYSIS CONTD

Type of Engagement	Description	Nature of Report	Pros	Cons
Reasonable Assurance	<p>The <b>overall</b> scope of work (or a minimum scope of work) is agreed by the grant-paying body, grant recipient and the accountant (<b>including materiality levels</b>)</p> <p>or</p> <p>The accountant follows the overall scope of work (or a minimum scope of work) set out in the grant claim terms and conditions, or other relevant guidance, that have previously been agreed by the accountant or representative body,</p> <p>but</p> <p><b>the accountant determines the exact scope, nature and extent of the procedures required to support their opinion.</b></p> <p>The accountant then undertakes these procedures and provides a <b>positive conclusion</b> on the grant claim.</p>	<p>A conclusion on the grant claim in the form of a <b>positive assurance conclusion</b> eg, 'in my opinion, the grant claim has been prepared in accordance with the grant instructions and the amounts recorded have been spent for the intended purpose'.</p> <p>While a template wording can be suggested, it should be for the accountant to determine the exact wording of their conclusion which reflects their judgement and is linked to the work actually carried out.</p>	<ul style="list-style-type: none"> <li>The grant-paying body is provided with a positive conclusion (or otherwise) on compliance with the grant's key financial terms and conditions.</li> <li>The accountant is a 'financial expert', and has determined the appropriate scope, nature and extent of testing necessary to reach their conclusion on the grant claim.</li> <li>Professional guidance in place in the form of International Standard on Assurance Engagements (ISAE) 3000, <i>Assurance engagements other than audits or reviews of historical financial information</i>.</li> </ul> <p>No need to 'interpret' the results, unless there is a qualified opinion.</p>	<ul style="list-style-type: none"> <li>As each accountant is responsible for determining the exact scope, nature and extent of testing required to support their conclusion there is likely to be inconsistency between the amount of work undertaken by different accountants.</li> <li>Requires 'materiality' to be set or agreed by the grant-paying body, so that accountants can determine the scope, nature and extent of the testing with the expectations of the grant-paying body in mind.</li> <li>The grant-paying body simply receives a conclusion, rather than a detailed report, unless additional reporting is specified (eg, details of all exceptions identified).</li> <li>Readers of the report may not know the exact scope, nature or extent of the work undertaken by the reporting accountant, unless the engagement letter is attached or additional reporting is specified.</li> <li>To reach a positive conclusion typically requires additional procedures to be undertaken by the accountant. This type of engagement can therefore be more expensive.</li> </ul>

A 'reasonable assurance' engagement may be the most appropriate type of engagement when the grant-paying body wants to:

- obtain a conclusion from an accountant; and/or
- allow the accountants to apply their judgement in determining the scope, nature and extent of the work required to provide a conclusion on the grant claim.

A 'reasonable assurance' engagement is unlikely to be the most appropriate type of engagement when the grant-paying body wants to:

- ensure that the scope, nature and extent of testing is the same on all grant claims (although it is possible to specify minimum requirements);
- understand exactly what amount of testing has been undertaken by the accountant (although it is possible to request additional disclosures in respect of this);
- be provided with details of all exceptions (although it is possible to request additional disclosures in respect of this);
- avoid being involved in setting a materiality level for the grant claim; and/or
- minimise the costs associated with obtaining the required assurance over the grant claim.

# APPENDIX C

## (i) PRO FORMA REPORT – AGREED-UPON PROCEDURES

**Report of factual findings in connection with [project]**

**OFFER LETTER/CONTRACT DATED [DATE][Reference]**

To: Directors [and Grant Provider]<sup>7</sup>

This report is produced in accordance with the terms of our engagement letter dated [XX] for the purpose of reporting to the directors of [client] (the 'company') and [grant provider] (the 'grant provider')<sup>8</sup> in connection with the grant claim for the monies receivable from the [[grant provider] (the 'grant provider')]/[grant provider] under its grant offer letter dated X (the 'offer letter') in respect of [project name]/[phase X] for the period ended [date][and in accordance with the terms of our engagement letter dated [date] (attached hereto)].

[Insert appropriate clarifying language from Appendix G]

[Respective responsibilities of the company and [firm of accountants]

As directors of the company, you are responsible for ensuring that the company maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the company, and in respect of grant claims, as the company's directors (the 'directors') you are responsible for compiling claims in accordance with grant offer letters, ensuring that only eligible items are included in each grant claim and for ensuring that all terms of such offer letters have been complied with or varied in writing with the provider. It is also the directors' responsibility to extract relevant financial information from the company's accounting records, to make the calculations specified in the offer letter, and to provide relevant financial information to the provider.]

### **Our approach**

For the purpose of the engagement we have been provided by the directors with a schedule (as defined under the offer letter) showing the company's eligible expenditure and the necessary calculations in accordance with the grant offer letter, which is attached as Appendix [X] to this letter (the 'schedule'). The directors of the company remain solely responsible for the schedule.

Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. We were asked to perform the [Y] procedures as detailed in Appendix [X] and our engagement letter.

We confirm that we carried out [X] out of the [Y] procedures. The results of these procedures are as follows:

We were unable to carry out the following procedures: [and state reason]

or

We confirm that we carried out the following procedures (except [X] because ...)

[List out the findings, with detailed exceptions (including the procedures that could not be performed, where applicable)]

<sup>7</sup> Report will be addressed to grant provider where they have entered into a contract with the accountant.

<sup>8</sup> Report will be addressed to grant provider where they have entered into a contract with the accountant.

**Inherent limitations**

Our procedures, [as stated in our engagement letter] do not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the schedule. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the schedule in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the schedule and does not extend to any financial statements of the company, taken as a whole.

[Our audit work on the financial statements of [grant recipient] is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. This engagement will not be treated as having any effect on our separate duties and responsibilities as [grant recipient]'s external auditors. Our audit report on the financial statements is made solely to [grant recipient]'s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to [grant recipient]'s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [grant recipient] and [grant recipient]'s members as a body, for our audit work, for our audit reports, or for the opinions we have formed.<sup>9</sup>

To the fullest extent permitted by law we do not and will not, by virtue of our reports/confirmations or otherwise, assume or accept any duty of care or liability under this engagement to [grant recipient] or to [grant provider] or to any other party, whether in contract, negligence or otherwise in relation to our audits of [grant recipient]'s financial statements.]

Yours faithfully,

Firm of Accountants  
Office  
Date

<sup>9</sup> This paragraph is necessary in those situations where the accountants are also the auditors of the grant recipient. Accountants should amend 'members' and statutory references and other language as required if the grant recipient is not a company.

## (ii) PRO FORMA REPORT – LIMITED ASSURANCE

### Independent Limited Assurance Report in connection with [project]

#### OFFER LETTER/CONTRACT DATED [DATE][Reference]

To: Directors [and Grant Provider]<sup>10</sup>

This report is produced in accordance with the terms of our engagement letter dated [XX] for the purpose of reporting to [the directors of client] (the 'company') and [grant provider] (the 'grant provider')<sup>11</sup> in connection with the grant claim for the monies receivable from the [[grant provider] (the 'grant provider')]/[grant provider] under its grant offer letter dated X (the 'offer letter') in respect of [project name]/[phase X] for the period ended [date] [and in accordance with the terms of our engagement letter dated [date] (attached hereto)].

[Insert appropriate clarifying language from Appendix G]

[Respective responsibilities of the company and [firm of accountants]

As directors of the company, you are responsible for ensuring that the company maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the company, and in respect of grant claims, as the company's directors (the 'directors') you are responsible for compiling claims in accordance with grant offer letters, ensuring that only eligible items are included in each grant claim and for ensuring that all terms of such offer letters have been complied with or varied in writing with the provider. It is also the directors' responsibility to extract relevant financial information from the company's accounting records, to make the calculations specified in the grant offer letter, and to provide relevant financial information to the provider.]

#### Our approach

We conducted our engagement in accordance with [established framework<sup>12</sup>/the procedures set out in our engagement letter dated [date]]. We performed a limited assurance engagement as defined in [the framework/our engagement letter].

For the purpose of the engagement we have been provided by the directors with a schedule (as defined under the offer letter) showing the company's eligible expenditure and the necessary calculations in accordance with the offer letter, which is attached as Appendix [ ] to this letter (the 'schedule'). The directors of the company remain solely responsible for the schedule.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on [the schedule]. [A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a positive assurance engagement. Accordingly, we do not express a positive opinion.]

Work is performed in accordance with the [applicable framework as laid out in the engagement letter].

[Include summary of work]

<sup>10</sup> Report will be addressed to grant provider where they have entered into a contract with the accountant.

<sup>11</sup> Report will be addressed to grant provider where they have entered into a contract with the accountant.

<sup>12</sup> The framework will either be the ISAE 3000, *Assurance engagements other than audits and reviews of historical financial information* or the applicable criteria set by the grant-paying body in its scheme terms and conditions.

**Inherent limitations**

[Our audit work on the financial statements of [grant recipient] is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. This engagement will not be treated as having any effect on our separate duties and responsibilities as [grant recipient]'s external auditors. Our audit report on the financial statements is made solely to [grant recipient]'s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to [grant recipient]'s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [grant recipient] and [grant recipient]'s members as a body, for our audit work, for our audit reports, or for the opinions we have formed.<sup>13</sup>

To the fullest extent permitted by law we do not and will not, by virtue of our reports/confirmations or otherwise, assume or accept any duty of care or liability under this engagement to [grant recipient] or to [grant provider] or to any other party, whether in contract, negligence or otherwise in relation to our audits of [grant recipient]'s financial statements.]

**Conclusion**

Based on our work described in this report, nothing has come to our attention that causes us to believe that the accompanying [the schedule] has not been prepared in all material respects in accordance with [the framework/our engagement letter].

or

Based on the procedures performed we have identified the following exceptions that [the schedule] has not been prepared in all material respects, in accordance with [the framework/our engagement letter].

[list exceptions]

Firm of Accountants  
Office  
Date

<sup>13</sup> This paragraph is necessary in those situations where the accountants are also the auditors of the grant recipient. Accountants should amend 'members' and statutory references and other language as required if the grant recipient is not a company.

### (iii) PRO FORMA REPORT – REASONABLE ASSURANCE

**Independent Reasonable Assurance Report in connection with [project]**

**OFFER LETTER/CONTRACT DATED [DATE][Reference]**

To: Directors [and Grant Provider]<sup>14</sup>

This report is produced in accordance with the terms of our contract dated [XX] for the purpose of reporting to [the directors of client] (the 'company') and [grant provider] (the 'grant provider')<sup>15</sup> in connection with the grant claim for the monies receivable from the [[grant provider] (the 'grant provider')]/[grant provider] under its grant offer letter dated X (the 'offer letter') in respect of [project name]/[phase X] for the period ended [date] [and in accordance with the terms of our engagement letter dated [date] (attached hereto)].

[Insert appropriate clarifying language from Appendix G]

[Respective responsibilities of the company and [firm of accountants]

As directors of the company, you are responsible for ensuring that the company maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the company, and in respect of grant claims, as the company's directors (the 'directors') you are responsible for compiling claims in accordance with grant offer letters, ensuring that only eligible items are included in each grant claim and for ensuring that all terms of such offer letters have been complied with or varied in writing with the provider. It is also the directors' responsibility to extract relevant financial information from the company's accounting records, to make the calculations specified in the grant offer letter, and to provide relevant financial information to the provider.]

#### **Our approach**

We conducted our engagement in accordance with [established framework<sup>16</sup>]. We performed a reasonable assurance engagement as defined in [the framework].

For the purpose of the engagement we have been provided by the directors with a schedule (as defined under the offer letter) showing the company's eligible expenditure and the necessary calculations in accordance with the offer letter, which is attached as Appendix [ ] to this letter (the 'schedule'). The directors of the company remain solely responsible for the schedule.

The objective of a reasonable assurance engagement is to perform such procedures [on a sample basis] as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express a positive conclusion on [the schedule].

<sup>14</sup> Report will be addressed to grant provider where they have entered into a contract with the accountant.

<sup>15</sup> Report will be addressed to grant provider where they have entered into a contract with the accountant.

<sup>16</sup> The framework will either be the ISAE 3000, *Assurance engagements other than audits and reviews of historical financial information* or the applicable criteria set by the grant-paying body in its scheme terms and conditions.



**Inherent limitations**

[Our audit work on the financial statements of [grant recipient] is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. This engagement will not be treated as having any effect on our separate duties and responsibilities as [grant recipient]'s external auditors. Our audit report on the financial statements is made solely to [grant recipient]'s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to [grant recipient]'s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [grant recipient] and [grant recipient]'s members as a body, for our audit work, for our audit reports, or for the opinions we have formed.<sup>17</sup>

To the fullest extent permitted by law we do not and will not, by virtue of our reports/confirmations or otherwise, assume or accept any duty of care or liability under this engagement to [grant recipient] or to [grant provider] or to any other party, whether in contract, negligence or otherwise in relation to our audits of [grant recipient]'s financial statements.]

**Conclusion**

In our opinion, [the schedule] has been prepared, in all material respects, in accordance with [the framework<sup>18</sup>].

or

Except for [detail minor exceptions noted], in our opinion [the schedule] has been prepared, in all material aspects, in accordance with [the framework].

or

In our opinion [the schedule] has not been prepared in all material respects, in accordance with [the framework].

[insert details of issues leading to qualification of opinion]

Firm of Accountants  
Office  
Date

<sup>17</sup> This paragraph is necessary in those situations where the accountants are also the auditors of the grant recipient. Accountants should amend 'members' and statutory references and other language as required if the grant recipient is not a company.

<sup>18</sup> The framework will either be the ISAE 3000, *Assurance engagements other than audits and reviews of historical financial information* or the applicable criteria set by the grant-paying body.

# APPENDIX D

## EXAMPLES OF TYPES OF WORDING OR OPINIONS THAT MAY NOT BE ACCEPTABLE TO ACCOUNTANTS PROVIDING SPECIAL REPORTS

### 1. Wording giving an opinion on a matter as a statement of fact when that matter, by its nature, is inherently uncertain or a matter of judgement

Examples include **'we certify'**, wording which accountants would not normally (except when required to by legislation) be in a position to use as it implies complete accuracy. Accountants also avoid using words or phrases such as **'correct'** or **'accurate'** or **'we have ensured'** for assertions that can never be made with absolute certainty. However, accountants can certify that they have performed an examination in accordance with agreed criteria.

### 2. The use of the term **'true and fair'** or **'presents fairly'** when financial information is not prepared applying an acceptable financial reporting framework such as UK Accounting Standards or International Financial Reporting Standards as adopted by the EU

The use of other phrases such as **'present fairly'** or **'properly prepared'** are avoided unless they are clearly placed in context, for example, **'present fairly in all material respects in the context of reporting upon this grant claim in accordance with...'**.

### 3. **'Fair and reasonable'** opinions

Accountants generally avoid giving **'fair and reasonable'** opinions as they are normally associated with investment banks making recommendations to shareholders in respect of transactions. There is also the risk that they might be construed as valuations, which can give independence problems for accountants.

### 4. Wording that might suggest that the grant-paying body is able to rely on the statutory audit of the grant recipient

Accountants avoid any possibility of a link becoming established between the special report and the statutory audit report. For example, they avoid phrases such as **'we audited the accounts and we...'** or **'during our audit we ...'**.

### 5. Opinions that are open-ended or otherwise cannot be supported by the work carried out by the accountants

Accountants avoid phrases that are open-ended unless the scope of the work is clear by reference to the engagement letter or relevant standards or guidance, for example phrases such as **'we obtained all the explanations we considered necessary'** or **'we have performed such procedures as we considered necessary'** are not acceptable. Accountants do not give opinions that are not supported by the work carried out, such as assertions about completeness that cannot be supported by a limited amount of work that has been performed. Accountants could use, **'we have performed the tests laid out in the schedule/work programme which is attached to the engagement letter'**. These words would link the report back to the scope of work. Other examples of inappropriate reporting include providing positive opinions on solvency or prospective information which is inherently uncertain. In the same way, it is impossible for accountants to be able positively to state whether receipt of a grant has created or safeguarded a particular number of jobs. In addition, a positive opinion on whether or not the grant recipient has actually obtained **'value for money'** can never be given as VFM is an intangible concept. However, it is reasonable to determine whether a client has sought VFM by reference to specific criteria. A report can only give assurance on the basis of the information available at the time that it is provided.

### 6. Opinions which accountants do not have the necessary competence to provide

Accountants avoid opinions that are not within their professional competence, such as an opinion of an actuarial nature or a property valuation, where there has been no input from a relevant expert. Another example of this would be the appropriateness of insurance cover.

## 7. Opinions on matters beyond the accountants' knowledge and experience

Accountants avoid giving any opinion about how 'appropriate' operational information or records being held or maintained by the grant recipient are, where the information or records relate to matters concerning the specific operational circumstances of the grant recipient which are beyond the scope of the accountants' professional knowledge and experience.

## 8. Wording that is open to interpretation

Certain words or phrases might be open to interpretation and these are only appropriate to use in clearly defined circumstances where the meaning is well established and understood. The word 'review' is best avoided as it can be unclear what has been reviewed and the extent of the work. In addition if the term is used it may be misinterpreted that International Standards on Review Engagements as issued by the IAASB or International Standards on Review Engagements (ISRE) (UK and Ireland) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* has been applied when in fact, this is not the case.

Words to avoid can also include accounting terms, such as 'net current assets' in sectors where specific adjusting items might be recognised when assessing liquidity. Accountants always define terms if the meaning might be unclear and do not otherwise use such terms. The word 'material' is avoided unless this can be referenced to a clear definition.

## 9. Reports on internal controls

Reports on internal controls are only possible in well-defined and well-established circumstances, where the reporting arrangements have been agreed in a clear manner. Reports on systems and controls are avoided where there are inadequate criteria specified. Reports include an indication of the limitations of a system and are related to a point in time or period.

General guidance is given in the APB Briefing Paper *Providing assurance on the effectiveness of internal control* specifically in relation to certain entities in both AAF 01/06, *Assurance reports on internal controls of service organisations made available to third parties* and ITF 01/07, *Assurance reports on the outsourced provision of information services and information processing services*. It is also useful to clarify in writing the responsibilities of management and in particular, to indicate that they are responsible for identifying, evaluating and managing new and changing risks on an ongoing basis.

## 10. Reports without addressees

Accountants do not provide reports when it is unclear to whom the report is being provided.

## 11. Reports on financial information which is not explicitly approved by the grant recipient

The grant recipient has responsibility for the financial information being provided and it is, therefore, not appropriate for the accountants to report on financial information unless it is clear that this has first been approved by the grant recipient.

## 12. Qualifications in the covering letter only

Accountants provide qualifications in their covering letter only when a pre-printed report (with wording that is acceptable) is requested. In this case, a clear reference to the report and qualification is included in the covering letter and the pre-printed report should be annotated in some way so that it is clear that it should not be read in isolation from the covering letter. Otherwise, such qualifications are included in the main body of the report, so that they cannot be detached. Hence accountants should include any reservations about the claim or qualifications on the claim in the main body of the report. In a similar vein, all explanations of respective responsibilities of the grant recipient, grant-giving body and reporting accountants or limits being placed on circulation of the report or disclaiming of liability by the reporting accountant should be included in the main body of the report. Covering letters should normally be used to explain to the recipients of the letter that a report is being enclosed.

## 13. Opinions which would impair the auditors' independence

Accountants do not provide opinions that would impair their independence as auditors. For example, where the grant recipient is an SEC registrant, certain forms of valuation opinion are not permitted from auditors.

# APPENDIX E

## EXAMPLE OF A MODEL TRIPARTITE ENGAGEMENT LETTER

**When a sponsoring body is to be bound into the engagement process, then all references to the grant-paying body should also include references to the sponsoring body.**

### Government Grant Claim/ returns – the model tripartite agreement

Addressee details:

- (i) The [grant-paying body]
- (ii) Grant recipient

Dear Sirs

Government grant reports/confirmations

We are writing to confirm the terms and conditions on which you have engaged [name of firm] to provide reports/confirmations in connection with [description or name of grant] paid by [grant-paying body] to [grant recipient]. These terms and conditions will apply to the reports/confirmations to be supplied for the period [ended / ending ... ] and for subsequent periods unless otherwise agreed in writing. We will write separately to the grant recipient regarding practical matters such as the timing of our work, staffing and our charges. Our invoice will be addressed to [grant recipient], who will be solely responsible for payment in full.

### Scope of our work

We will complete the relevant work specified below on the schedule (as defined in the offer letter). The schedule is to be prepared by, and is the sole responsibility of [grant recipient].

Our work will comprise the following:

[Set out here details of planned work relevant to the nature of the claim or grant, type of engagement and form and content of report required]

[Having set out the scope above, select one of the following]

**[Reasonable assurance]** On the basis of our work, we will report whether, in our opinion, [the schedule] has been prepared, in all material respects, in accordance with [the framework<sup>19</sup>].

**[Limited assurance]** On the basis of our work, we will report that nothing has come to our attention that causes us to believe that [the schedule] has not been prepared in all material respects in accordance with [the framework/engagement letter].

**[Agreed-upon procedures]** We will perform the specified procedures set out in Appendix [X] and this engagement letter. Upon completion and on the basis of those procedures, we will provide you with a report with the results of our findings. You have both agreed that the scope of our work, as specified above, is sufficient for your purposes.

[Preparation of any document that [grant recipient] may be required to submit to [grant-paying body] in connection with our work will be the responsibility of [grant recipient]'s directors<sup>20</sup>, who will also be responsible for ensuring that [grant recipient] maintains adequate accounting records and such other records as may be required by [grant-paying body]. [Grant recipient]'s directors will, on request, supply us with confirmation of matters affecting our work which are dependent on the directors' judgement.]

Save as set out above, we will not seek to establish the accuracy, completeness or reliability of any of the information or documentation made available to us. Our work will not amount to an audit of financial statements and will not give the same level of assurance as an audit.

Our audit work on the financial statements of [grant recipient] is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. This engagement will not be treated as having any effect on our separate duties and responsibilities as [grant recipient]'s external auditors. Our audit reports on the financial statements are made solely to [grant recipient]'s members, as a body, in accordance with

<sup>19</sup> The framework will either be the ISAE 3000, *Assurance engagements other than audits and reviews of historical financial information* or the applicable criteria set by the grant-paying body.

<sup>20</sup> All references to directors in this model mean either directors, partners, proprietors, board members, trustees, company secretary, or other authorised signatory, as appropriate.

Chapter 3 of Part 16 of the Companies Act 2006. Our audit work is undertaken so that we might state to [grant recipient]'s members those matters we are required to state to them in an auditor's report and for no other purpose. Our audits of [grant recipient]'s financial statements are not planned or conducted to address or reflect matters in which anyone other than such members as a body may be interested for such purpose.<sup>21</sup> In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than [grant recipient] and [grant recipient]'s members as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of those audits.

To the fullest extent permitted by law we do not and will not, by virtue of our reports/confirmations or otherwise, assume or accept any duty of care or liability under this engagement to [grant recipient] or to [grant-paying body] or to any other party, whether in contract, negligence or otherwise in relation to our audits of [grant recipient]'s financial statements.

Having carried out our work we will issue reports/confirmations addressed to [grant recipient] and [grant-paying body] in the form set out in the appendix to this engagement letter, if our findings support this. In determining the form of our report we will take into account, (though without being bound by it) any form of reporting that the [grant-paying body] has suggested or agreed with the ICAEW following consultation with them. We will deliver copies to [grant recipient] at the same time. This letter will be identified in our reports/confirmations as the 'tripartite agreement' under which our reports/confirmations have been issued. The accountant's reports must not be recited or referred to in whole or in part in any other document (including, without limitation, any publication issued by the [grant-paying body]) without the prior written approval of the accountant except where there is a legal or statutory right of access. If we need to qualify our opinion, we will issue a qualified report but will continue to use the agreed form of report for all aspects that are not qualified.

#### **Other matters**

Our duties and liabilities in connection with this engagement owed to [grant recipient] and to [grant-paying body] will differ.

[Detail any exclusions and limitations on the firm's liability to both the grant-paying body and the grant recipient and any relevant qualifications required to satisfy statutory reasonableness criteria. Consider the guidance in the ICAEW's technical release AAF 01/10, *Framework document for accountants' reports on grant claims*.

Our duty to [grant-paying body] will be limited to delivery of reports/confirmations in the agreed form to facilitate the discharge of its statutory obligations. Delivery of such reports/confirmations (or the supply of confirmation that we are unable to do so in the agreed form) at any time will discharge that obligation in full. We will not owe [grant-paying body] any other duty, in contract, negligence or otherwise, in connection with our reports/confirmations or their preparation.

This agreement shall be subject to and governed by [the relevant country and legal system] and all disputes arising from, or under, it shall be subject to the exclusive jurisdiction of the [relevant] courts.

[Detail or append any other terms and conditions to apply to this work.]

Please confirm, by signing below, your agreement to this letter. Once you have done so, this letter will form a tripartite contract between us in respect of the matters covered. If you wish to discuss any aspects of this letter, please contact [name and telephone number].

Yours faithfully

[Name of accountant]

[Grant recipient]

[Grant-paying body]

21 This paragraph is necessary in those situations where the accountants are also the auditors of the grant recipient. Accountants should amend 'members' and statutory references and other language as required if the grant recipient is not a company.

# APPENDIX F

## EXAMPLE OF STANDARDISED TERMS OF ENGAGEMENT

### (Agreed as part of the grant conditions instead of a tripartite engagement.)

Where a sponsoring body is to be bound into the engagement process, then all references to the grant-paying body should also include references to the sponsoring body. Example: 'In these pre-agreed terms of engagement, references to the [grant-paying body] shall be read as incorporating references to [sponsoring body].'

The following are the pre-agreed terms of engagement on which the [grant-paying body] engages accountants to perform [a reasonable or limited assurance or agreed-upon procedures] engagement and report in connection with the [name of grant claim].

The [grant-paying body] accepts that an agreement between [grant recipient], its reporting accountants and the [grant-paying body] on these terms is formed when the accountants sign and submit to the [grant-paying body] a report as set out in Clause 3 herein. **[NB: The [grant-paying body] will not need to sign anything. By publishing this document the [grant-paying body] confirms that these pre-agreed terms form its agreement with [grant recipient] and the reporting accountants. Once the accountants' report is submitted to the [grant-paying body] in accordance with these terms the [grant-paying body] will accept that an agreement is formed. If the terms of the standardised engagement letter are to be revised, the [grant-paying body] will need to confirm its acceptance of the new terms before an agreement is formed.]**

In these terms of engagement:

'[grant-paying body]' refers to the body that is providing the grant funding;

'[grant recipient]' refers to the organisation that is required to submit the report to the [grant-paying body];

and

'the accountant' refers to the [grant recipient]'s reporting accountants.

### 1. Introduction

The [grant recipient] is required to submit to the [grant-paying body] reports as set out in Clause 3 below that are also signed by an accountant to provide independent assurance. These terms of engagement set out the basis on which the accountant will sign the report.

### 2. The [grant recipient]'s responsibilities

- 2.1 The [grant recipient] is responsible for producing the [information], maintaining proper records complying with the terms of any legislation or regulatory requirements and the [grant-paying body]'s terms and conditions of grant ('the grant conditions') and providing relevant information to the [grant-paying body] on a basis in accordance with the requirements of the grant conditions. The [grant recipient] is responsible for ensuring that the non-financial records can be reconciled to the financial records.
- 2.2 The management of the [grant recipient] will make available to the accountant all records, correspondence, information and explanations that the accountant considers necessary to enable the accountant to perform the accountant's work.
- 2.3 The [grant recipient] and the [grant-paying body] accept that the ability of the accountant to perform its work effectively depends upon the grant recipient providing full and free access to the financial and other records and the [grant recipient] shall procure that any such records held by a third party are made available to the accountant.
- 2.4 The accountant accepts that, whether or not the [grant recipient] meets its obligations, the accountant remains under an obligation to the [grant-paying body] to perform its work with reasonable care. The failure by the [grant recipient] to meet its obligations may cause the accountant to qualify its report or be unable to provide a report.

### 3. Scope of the accountant's work

- 3.1 The [grant recipient] will provide the accountant with such information, explanations and documentation that the accountant considers necessary to carry out its responsibilities. The accountant will seek written representations from management in relation to matters for which independent corroboration is not available. The accountant will also seek confirmation that any significant matters of which the accountant should be aware have been brought to the accountant's attention.
- 3.2 The accountant will perform the following work in relation to reports required by the [grant-paying body]:
- 3.2.1 Grant return: The accountant will [carry out a reasonable/limited level of assurance assignment or perform agreed procedures (tests)] [as set out in the terms and conditions of the grant] and subject to any adverse findings will produce a report in the form set out in Appendix X (these should be in line with the ICAEW's technical release AAF 01/10, *Framework document for accountants' reports on grant claims*).
- 3.2.2 Where a [reasonable/limited] level of assurance is required by the [grant-paying body], the criteria is identified as per the Appendix to this letter.
- 3.2.3 For an agreed upon procedures engagement, the tests are laid out in the Appendix to this letter.
- 3.3 The accountant will not subject the information provided by the [grant recipient] to checking or verification except to the extent expressly stated. While the accountant will perform the accountant's work with reasonable skill and care, the accountant's work should not be relied upon to disclose all misstatements, fraud or errors that might exist.

### 4. Form of the accountant's report

- 4.1 The accountant's reports are prepared on the following bases:
- 4.1.1 the accountant's reports are prepared solely for the confidential use of the [grant recipient] and the [grant-paying body] and solely for the purpose of submission to the [grant-paying body] in connection with the [grant-paying body]'s requirements in connection with [name of grant]. They may not be relied upon by the [grant recipient], or the [grant-paying body] for any other purpose;
- 4.1.2 without imposing on the accountant and without the accountant assuming (or being perceived as assuming) any duty or responsibility and without imposing or accepting any liability to anyone except the [grant recipient] and the [grant-paying body], the [grant-paying body] may disclose the reports to others who demonstrate statutory rights of access to the report;
- 4.1.3 neither the [grant recipient], the [grant-paying body] [or others] may rely on any oral or draft reports the accountant provides. The accountant accepts responsibility to the [grant recipient], the [grant-paying body] for the accountant's final signed reports only;
- 4.1.4 the report will be prepared solely for the confidential use of [grant recipient] [and grant-paying body], and solely for the purpose of facilitating the grant claim. The report will be released to [grant recipient] [and grant-paying body] on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent, except where there is a legal or statutory right of access. Without assuming or accepting any responsibility or liability in respect of the report to any party other than [grant recipient] [and grant-paying body], we acknowledge that [grant recipient] [and grant-paying body] (or one of them) may be required to disclose this report to parties demonstrating a statutory right to see it, to enable such parties to exercise their statutory rights of access to this report;
- 4.1.5 to the fullest extent permitted by law, except for the [grant recipient] and the [grant-paying body], the firm of accountants, its partners and staff neither owe nor accept any duty to any person (including, without limitation, any person who may use or refer to any of the [grant-paying body]'s publications) and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in the accountant's reports.

## 5. Liability provisions

- 5.1 The accountant will perform the engagement with reasonable skill and care and accepts responsibility to the [grant recipient], the [grant-paying body] for losses, damages, costs or expenses ('losses') caused by its breach of contract, negligence or wilful default, subject to the following provisions:
- 5.1.1 The accountant will not be responsible or liable if such losses are due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than the accountant, except where, on the basis of the enquiries normally undertaken by accountants within the scope set out in these terms of engagement, it would have been reasonable for the accountant to discover such defects.
- 5.1.2 The accountant accepts liability without limit for the consequences of its own fraud and for any other liability which it is not permitted by law to limit or exclude.
- 5.1.3 Subject to the previous paragraph (5.1.2), the total aggregate liability of the accountant whether in contract, tort (including negligence) or otherwise, to the [grant recipient] and the [grant-paying body], arising from or in connection with the work which is the subject of these terms (including any addition or variation to the work), shall not exceed the amount of **[to be discussed and negotiated]**.
- 5.2 The [grant recipient] and the [grant-paying body] agree that they will not bring any claims or proceedings against any individual partners, members, directors or employees of the accountant. This clause is intended to benefit such partners, members, directors and employees who may enforce this clause pursuant to the Contracts (Rights of Third Parties) Act 1999 ('the Act'). Notwithstanding any benefits or rights conferred by this agreement on any third party by virtue of the Act, the parties to this agreement may agree to vary or rescind this agreement without any third party's consent. Other than as expressly provided in these terms, the Act is excluded.
- 5.3 Any claims, whether in contract, negligence or otherwise, must be formally commenced within [insert number – eg 4] [years] after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the action and in any event no later than [insert number – eg 6] [years] after relevant report was issued (or, if no report was issued, when the accountant accepted the engagement in writing). This expressly overrides any statutory provision which would otherwise apply.
- 5.4 This engagement is separate from and unrelated to the accountant's audit work on the financial statements of the [grant recipient] for the purposes of any applicable statutory or regulatory or other auditing framework and nothing herein creates obligations or liabilities regarding the accountant's audit work, which would not otherwise exist.



## **6. Fees**

The accountant's fees, together with VAT and out-of-pocket expenses, will be agreed with and billed to the [grant recipient]. The [grant-paying body] is not liable to pay the accountant's fees.

## **7. Quality of service**

The accountant will investigate all complaints. The [grant-paying body] or the [grant recipient] have the right to take any complaint to the ICAEW. The [grant-paying body] or the [grant recipient] may obtain an explanation of the mechanisms that operate in respect of a complaint to the ICAEW at [www.icaew.co.uk/complaints](http://www.icaew.co.uk/complaints) or by writing to the ICAEW at the ICAEW Professional Standards Office, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ UK.

## **8. Providing services to other parties**

The accountant will not be prevented or restricted by virtue of the accountant's relationship with the [grant recipient] and the [grant-paying body], including anything in these terms of engagement, from providing services to other clients. The accountant's standard internal procedures are designed to ensure that confidential information communicated to the accountant during the course of an assignment will be maintained confidentially.

## **9. Applicable law and jurisdiction**

9.1 This agreement shall be governed by, and interpreted and construed in accordance with, [relevant country] law.

9.2 The [grant recipient], the [grant-paying body] and the accountant irrevocably agree that the courts of [relevant country] shall have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise on any basis in connection with the validity, effect, interpretation or performance of, or the legal relationship established by this agreement or otherwise arising in connection with this agreement.

## **10. Alteration to terms**

All additions, amendments and variations to these terms of engagement shall be binding only if in writing and signed by the duly authorised representatives of the parties. These terms supersede any previous agreements and representations (unless based on fraud) between the parties in respect of the scope of the accountant's work and the accountant's report or the obligations of any of the parties relating thereto (whether oral or written) and represents the entire agreement and understanding between the parties. These terms do not affect any separate agreement in writing between the [grant recipient] and the accountant.

# APPENDIX G

## EXAMPLE OF CLARIFICATION LANGUAGE FOR AN ACCOUNTANTS' REPORT

**Where the grant-paying body signs the engagement letter or the pre-agreed terms published by the grant-paying body apply.**

Our report is prepared solely for the confidential use of [insert name of grant recipient] [and insert name of grant-paying body], and solely for the purpose of facilitating the grant claim. This report is released to [insert name of grant recipient] [and insert name of grant-paying body] on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent except where there is a statutory right of access. Without assuming or accepting any responsibility or liability in respect of this report to any party other than [insert name of grant recipient] [and insert name of grant-paying body], we acknowledge that [insert name of grant recipient] [and insert name of grant-paying body] (or one of them) may be required to disclose this report to parties demonstrating a statutory right to see it, to enable such parties to exercise statutory rights of access to this report.

This report is designed to meet the agreed requirements of [insert name of grant recipient] [and insert name of grant-paying body] and particular features of our engagement determined by their needs at the time. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights against [name of accountant] for any purpose or in any context. Any party other than [insert name of grant recipient] [and insert name of grant-paying body] which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, [name of accountant] will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

**[Freedom of Information Act wording – optional] If [insert name of grant-paying body] receives a request for disclosure of this report under the Freedom of Information Act 2000, [insert name of grant-paying body] is asked to consult with [insert name of accountants] and not to make any disclosure in response to any such request without taking into consideration any representations that [insert name of accountants] might make.**

**Where the grant-paying body does not sign the engagement letter and the pre-agreed terms published by the grant-paying body do not apply.**

Our report is prepared solely for the confidential use of [insert name of grant recipient] and solely for the purpose of facilitating the grant claim. This report is released to [insert name of grant recipient] on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than [insert name of grant recipient], we acknowledge that [insert name of grant recipient] may be required to disclose this report to [insert name of grant-paying body] or other parties demonstrating a statutory right to see it, to enable [insert name of grant-paying body] and such other parties to exercise statutory rights of access to this report.

This report is designed to meet the agreed requirements of [insert name of grant recipient] and particular features of our engagement determined by [insert name of grant recipient]'s needs at the time. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights against [name of accountant] for any purpose or in any context. Any party other than [insert name of grant recipient] which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, [name of accountant] will accept no responsibility or liability in respect of this report to any other party.

# APPENDIX H

## LIABILITY CAPS AND PROPORTIONALITY CLAUSE

### **Example of a liability cap for the accountants' reporting engagement, where a duty is accepted to the grant recipient and to the grant payer.<sup>22</sup>**

To the fullest extent permitted by law, the total aggregate liability, whether to [insert name of grant recipient] or to [insert name of grant-paying body] or both, arising on any basis, whether in contract, tort (including negligence) or otherwise, of [insert name of accountants] for any losses whatsoever and howsoever caused arising from or in any way connected with this engagement shall not exceed [insert amount] (including interest).

Where there is more than one party to whom [the accountant] accepts responsibility, the limit of the liability specified will have to be allocated between those parties. Such allocation will be entirely a matter for those parties, and they will be under no obligation to inform [name of accountants] of it; if (for whatever reason) no such allocation is agreed, the parties will not dispute the validity, enforceability or operation of the limit of liability on the grounds that no such allocation was agreed or that any such allocation is of an unreasonably low sum.

### **Possible words for a proportionality clause:**

Subject to the limitation on [the accountant]'s liability, which (with this paragraph) shall have no application to any liability which cannot lawfully be excluded or limited, [the accountant]'s liability shall in aggregate be limited to that proportion of the total loss or damage, after taking into account contributory negligence (if any), which is just and equitable having regard to the extent of the responsibility of [the accountant] for the loss or damage concerned, and the extent of responsibility of any other person also responsible or potentially responsible ('other person'). In order to calculate the proportionate share of [the accountant]'s liability, no account shall be taken of any matter affecting the possibility of recovering compensation from any other person, including the other person having ceased to exist, having ceased to be liable, having an agreed limit on its liability or being impecunious or for other reasons unable to pay, and full account shall be taken of the responsibility to be attributed to any other person whether or not it is before the competent court as a party to the proceedings or as a witness.

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<sup>22</sup> This is an example of a liability cap only, which will be one of a number of provisions relating to the accountants' liability and any limitations thereon. For example, the liability provisions will need to make it clear that the accountants are not seeking to exclude those liabilities (such as liability for their own fraud) which cannot be excluded by law.

# GLOSSARY OF TERMS

Terms	Meaning
Accountants	The term <b>accountants</b> , refers to an individual accountant, firm of accountants, partner, director, or engagement leader who are responsible for the reporting engagement. The <b>accountants</b> provide the requested reports separately from the audit of the annual financial statements of the client. The term <b>accountants</b> is therefore also used to differentiate from auditors who audit the annual financial statements.
Additionality	The extra things that happen as a result of the grant, such as new or expanded services, more beneficiaries participating, improved access to widen take-up. Demonstrating additionality is generally a mandatory requirement for projects receiving European funding.
Audit	An audit is usually carried out on an organisation's financial statements in accordance with statutory obligations. An audit will be subject to a separate engagement. The audit report will be provided separately from the accountants' report on grant claims and returns. The term <b>auditors</b> is therefore used to differentiate from accountants who will provide other reports on these grants claims and returns.
Audit agencies	Public sector audits in the UK are subject to a variety of audit and related assurance regimes. This work is carried out by five national 'audit agencies', which are <ul style="list-style-type: none"> <li>• National Audit Office</li> <li>• Audit Commission</li> <li>• Audit Scotland</li> <li>• Wales Audit Office</li> <li>• Northern Ireland Office.</li> </ul> Audit and assurance work is also carried out by private sector firms commissioned or engaged by the audit agencies.
Clients	The grant recipients. The organisations that are receiving the money.
Committee of Public Accounts (PAC)	The Committee of Public Accounts is a Select Committee of the House of Commons. Historically, the primary purpose of the PAC's enquiries was to satisfy itself on the accounting for and regularity and propriety of public expenditure. The PAC retains its interest in these matters, but it also explores matters related to economy, efficiency and effectiveness of government business.
Contributions in kind	Non-cash contributions to a project such as equipment, facilities, resources or volunteer time.
Devolved administrations	Public sector bodies which support the elected governments in Scotland, Wales and Northern Ireland.
Engagement letter	These are the terms of the accountants engagement (with the recipient, and sometimes the grant-paying body). This enables all three parties to clarify expectations, the scope of the auditor's work and the agreed form of the accountant's conclusion and report. If a grant-paying body awards many similar grants, it may issue a 'standard engagement letter'.
Grant	The term 'grant' covers a wide range of payments by government bodies for various purposes. In this guidance, reference to grant monies is in relation to payments made by the grant-paying body to an organisation where the grant is to be used for a specific purpose and the grant-paying body seeks to impose specific controls over the expenditure.
Grant in aid	Grant in aid is when a government department or other sponsoring body finances all or part of the costs of an organisation but the body operates at arm's length and the sponsoring body does not seek to impose detailed controls over the expenditure.
Grant-paying bodies	These are the bodies that are providing the funding directly to grant recipients.
Grant recipients	These organisations receive the funding from the grant-paying bodies.

Terms	Meaning
Match funding	<p>Match funding, (or matched funding or partnership funding) arrangements are when the grant recipient is required to make a contribution to the project, either through funding or as a contribution in kind.</p> <p>Many grants, including those from European Structural Funds, will meet only part of the full project cost. This means that the remaining costs have to be met from other sources, the 'match funds', and it will be the recipient's task to secure these. Potential sources of match funds include:</p> <ul style="list-style-type: none"> <li>• other government programmes and grants;</li> <li>• grants from local authorities and other statutory bodies;</li> <li>• contributions from the voluntary sector, including donations from charities and trusts;</li> <li>• contributions from the private sector; and</li> <li>• loans from various organisations.</li> </ul> <p>Match funding can include 'contributions in kind' as well as cash – examples would be the use of the recipient's paid staff on the project, volunteers, and accommodation.</p>
NDPB	<p>Non-Departmental Public Body. They are better known as 'quangos'. These are not part of government departments and are not staffed by civil servants. Examples include regional development agencies and national park authorities.</p>
Objective (of the grant)	<p>The grant's objectives will be the supported activities which will deliver the changes the grant is meant to bring about. The objective needs to be set when the grant is first designed and it should fit in with the grant-paying body's own strategic objectives. This then enables the application forms and bid evaluation scheme to be written.</p>
Offer letter	<p>Letter from the paying body to the recipient which confirms that the bid or application for grant (including any delivery plan) is acceptable and that funding is awarded. The offer letter gives full details of the grant, including:</p> <ul style="list-style-type: none"> <li>• the name of the recipient (and any wider partnership being funded);</li> <li>• the eligible activities approved for funding;</li> <li>• types of eligible expenditure (and anything else which is ineligible);</li> <li>• the maximum amount of grant to which the recipient will be entitled;</li> <li>• the nature of the grant (capital, revenue);</li> <li>• the rate of grant support and the maximum eligible project cost (if grant is less than 100%);</li> <li>• the period of the grant, showing the project start and end dates and the last date for claims;</li> <li>• the outputs to be delivered, showing milestones and the final targets;</li> <li>• the terms and conditions and any other guidance; and</li> <li>• a claim form (and any out-turn statement).</li> </ul> <p>The letter should include a requirement for the recipient to return a formal letter of 'acceptance'. 'Offer letters' can also be referred to as 'funding agreements'.</p>
The Panel	<p>The Public Sector Special Reports of Accountants Panel set up by the Audit and Assurance Faculty of the ICAEW.</p>
Payment (of grant)	<p>Payments to organisations will normally be made on the basis of claim forms submitted by the grant recipient. However, grants to individuals are normally made in full once the application is accepted by the grant-paying body (although the terms and conditions will set out circumstances in which all or part of the grant can be recovered).</p> <p>Payment of grant is conditional on compliance with the terms and conditions and on satisfactory progress being made against milestones towards the end objectives and targets.</p>
Propriety	<p>Linked to Regularity. Propriety is the concept that patterns of resource consumption should respect Parliament's intentions, conventions and control procedures, including any laid down by the PAC. It is concerned with standards of conduct, behaviour and corporate governance. It includes matters such as fairness, integrity, the avoidance of personal profit from public business, even-handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance.</p>

Terms	Meaning
Public sector	<p>For the purpose of this guidance only, the public sector is defined as:</p> <ul style="list-style-type: none"> <li>• government departments and their executive agencies;</li> <li>• the National Assembly for Wales and their sponsored bodies;</li> <li>• trading funds;</li> <li>• bodies not administered as government departments but which are subject to ministerial and departmental control, for example NDPBs;</li> <li>• local authorities and other local government bodies; and</li> <li>• NHS bodies.</li> </ul> <p>This definition does not include public corporations (except where they are NDPBs) or the nationalised industries. The first four parts of the definition are collectively referred to as Central Government.</p> <p>Additionally, it applies to bodies that receive government grants for specific purposes although they are not public sector bodies:</p> <ul style="list-style-type: none"> <li>• charities;</li> <li>• higher education institutions; and</li> <li>• further education colleges.</li> </ul>
Regularity	<p>Linked to propriety, regularity is the concept that resource consumption should accord with the relevant legislation, the relevant delegated authority and the requirements set down by HM Treasury in <i>Managing Public Money</i>.</p>
Retention (of grant)	<p>Grant-paying bodies may choose to protect their position by holding back a small proportion of the grant which the grant recipient would otherwise be entitled to. The retention is then released upon final completion of the project if all is well and, where an accountant's report is required, with the likelihood that the remaining grant will only be paid if the report is received without any qualification.</p>
Special reports	<p>In the context of this guidance, these are specific reports provided by an accountant to grant recipients and/or other parties in relation to work performed on grant claims or returns. The work carried out under these special reports is under a separate arrangement.</p>
Sponsoring bodies	<p>These are the bodies that provide the initial allocation of funding to a grant-paying body to distribute the funds to grant recipients.</p>
Statutory arrangements	<p>Some reports to public sector bodies are put in place through requirements of legislation.</p>
Terms and conditions	<p>Issued with the offer letter (or contained within it), these set out what the paying body requires the recipient to do in return for funding. The terms and conditions need to be specific to the grant being awarded.</p>
Unhypothecated	<p>Grant funding provided for a general purpose and with no specific conditions attached, such as (i) annual Revenue Support Grant from central to local government; or (ii) annual grant-in-aid provided to a Non-Departmental Public Body.</p>
Virement	<p>A transfer of the grant offer from one activity (or expenditure type) to another, giving the grant-paying body and the recipient flexibility to deal with over and underspends. As virements will amend the figures set out in the offer letter, they will normally be agreed in writing by both parties though the terms and conditions may allow small virements (say up to 10% of the grant awarded) to be made by the recipient 'as of right' so long as the change is notified to the grant-paying body.</p>

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