

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	20 February 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2510 – Trusts and Common Good Fund
REPORT NUMBER	IA/AC2510
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Trusts and Common Good Fund.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of Trusts and Common Good Fund.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council’s Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2510 – Trusts and Common Good Fund

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Trusts & Common Good Fund

Status: Final

Date: 13 January 2025

Risk Level: Cluster

Report No: AC2510

Assurance Year: 2024/25

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	15-Aug-2024	15-Aug-2024
Scope agreed	23-Aug-2024	23-Aug-2024
Fieldwork commenced	26-Aug-2024	26-Aug-2024
Fieldwork completed	20-Sep-2024	25-Sep-2024
Draft report issued	11-Oct-2024	13-Nov-2024
Process owner response	1-Nov-2024	6-Dec-2024
Director response	8-Nov-2024	13-Jan-2025
Final report issued	15-Nov-2024	13-Jan-2025
AR&S Committee	20-Feb-2025	

Distribution	
Document type	Assurance Report
Director	Andy MacDonald, Director - Corporate Services
Process Owner	Jonathan Belford, Chief Officer - Finance
Stakeholder	Lesley Fullerton, Finance Operations Manager
	Robert Gilmour, Accountant
	Helen Sherrit, Finance Partner
	Vikki Cuthbert, Interim Chief Officer - Governance*
Final only	External Audit
Lead auditor	Sarah Poppe, Auditor

1 Introduction

1.1 Area subject to review

The Council is responsible for the administration of various Trusts and Common Good Funds. The money earned from the investments of the trusts is used for the benefit of the people of Aberdeen, which has previously included maintenance of graves and monuments, administration of the Guildry and its awards, school prizes, the advancement of art, the purchase of works of art and the advancement of Education. There are seven Trusts that are registered as Scottish Charities, which require an audited Annual Report and Accounts to be submitted to OSCR. The total for all Trusts within the Council on 31 March 2024 was £11,415,000.

The Common Good Fund stands separate from the other accounts and funds of the Council and represents a substantial portfolio of land, property and investments. By law it continues to exist for the common good of the inhabitants of Aberdeen City. In the past the Common Good Fund has funded donations to charitable organisations, erection and maintenance of memorial or ornamental statues within the City, funding for the Arts, and granting applications for individuals or groups carrying out their own community projects. The balance of the Common Good Fund at 31 March 2024 was £118,177,000.

Controls in place for the administering of funds from the Trusts and Common Good Fund are detailed in the Council's Financial Regulations.

1.2 Rationale for the review

The objective of this audit is to consider whether appropriate governance and controls are being applied over the use of Trusts and Common Good Funds. It is essential that the Council applies appropriate stewardship over these funds, ensuring they are used and maintained to best effect, in line with their defined purposes. If controls and governance are not effective, there is a risk funds may be used incorrectly, or their value reduced, with the potential for reputational damage and financial consequences for the Council. This area has not been looked at in recent years.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Cluster	This issue/ risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Trusts and Common Good Fund. This assurance has been driven by the controls in place across the Council, looking at the application process, and review and checks by officers.

Where controls are in place, the review identified some areas of weakness where enhancements could be made to improve the framework of control. Areas identified are:

- Procedures** – Written procedures are limited for both Trusts and the Common Good Fund. Although each has established criteria in line with their constitutional documents (where such exist), and the Common Good Fund has a flow chart to provide a guide as to how an application should progress as it reaches certain stages, neither have a comprehensive procedure that provides step by step guidance on how applications should be handled. Reliance is being placed on a small number of staff to administer processes, including the review and scoring of applications for funding. Documentation including funding agreements and the Council's grants register are not fully up to date and aligned with Following the Public Pound policy requirements. Failure to apply the appropriate approach would present financial and reputational risks, including an increased risk of error or fraud.
- Review of Applications** - A sample of 15 Common Good applications was reviewed, and some inconsistencies and weaknesses have been identified. Supporting evidence including applicants' financial documents, internal review and approvals, and sufficient alignment with relevant criteria (non-recurring funding requirements and delivery of wider community benefits), was not always held on file or had not been fully concluded prior to decisions being made by Council. Scoring is largely subjective in the absence of clear procedures, criteria, and peer review. Further funding was approved during the budget meeting for both Council and external organisations, for which no applications or other supporting evidence were held on file. The basis for awarding this funding is unclear. There is a risk that decisions are being made on incomplete information, and in the absence of transparency this could be perceived as inequitable, presenting a reputational risk to the Council.
- Council and Related Party Applications** –The majority of Common Good funds are used for recurring Council expenditure (63% of the proposed 2024/25 budget), and for payments to Arms Length External Organisations (ALEO's) associated with the Council (21%). Further payments are received in lieu of rents charged to external organisations, paid by the Fund; to services pending transfer to external organisations; and for separate awards from the Fund. In contrast to external funding and the Fund's sources of income, the cost of direct funding of Council operations is budgeted to increase year on year due to pay awards and inflation. The

proportion of funding available for community use is therefore anticipated to reduce. A lower standard of evidence is required for the recurring Council expenditure included in the budget: no applications are requested, and they are not subject to scoring. Opportunities to consider the value for money and community benefits obtained through use of this funding are limited. The basis for including these recurring costs appears to be historical, with no clear policy decision having been made for their continued provision, or for the difference in treatment. There is a risk of perceived conflict of interest if the Council is seen to be applying differing standards.

- **Procurement and Best Value** – To maximise the benefit of the available funds from both Trusts and the Common Good, it is essential that consideration is given to obtaining best value in purchasing where this forms part of a bid. For internal applications, the Council's Procurement Regulations should apply, regardless of the source of funds, however in the cases reviewed there was no evidence on file to demonstrate these had been applied, prior to funding being agreed. Any breach of the Council's regulations increases the risk of legal challenge, as well as reducing the effective buying power of the funds. For external applications to both Trusts and Common Good there is no requirement for applicants to provide competitive quotations to demonstrate proposals represent best value.
- **Payments and Monitoring** – Relevant approvals need to be confirmed, and funding agreements entered into in advance of making payments, to obtain assurance that funds are available and will be used appropriately. In one case a potential conflict of interest was identified where powers were delegated and used to approve funding, by an officer involved in applying for that funding. In breach of the Following the Public Pound policy, payments are not always being scheduled to reduce risks to the Council, and are not contingent on progress being demonstrated. There is no requirement for the applicant to demonstrate that the funding has been used or paid out in support of project delivery or specific costs incurred and paid for, either during or at the end of a project. There is therefore a major risk that projects could be paid for which do not deliver the agreed outcomes and outputs, and that this will not be identified and addressed.
- **Investments** – The Common Good budget report references an investment strategy for cash balances held by the Fund; however this has not been reviewed and updated since 2021. £30m was invested, the balance of which has been reducing. Remaining cash balances (£18m at 31 March 2024) are managed by the Council. Alternative options for investment have not been subject to recent consideration. Without regular review and planning, there is a risk that opportunities for enhancing return on investment or addressing investment performance issues, may be lost, eroding the potential benefits of the Funds.

Recommendations have been proposed to address the identified risks, emphasising the need for clear and consistent procedures, and documentation to demonstrate their application, prior to decisions being requested, awards agreed, and payments made. Review of recurring spend, project outcomes, and investment strategies, would enhance assurance over this area.

2.3 Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. The following are summaries of higher rated issues / risks that have been identified as part of this review:

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
1.6	Payments and Monitoring – Prior to releasing funds, relevant approvals must be confirmed, to verify that the request aligns with the Trust's purpose, and that sufficient funds are available. Once confirmed, approval must then be obtained from both the Chief Officer of the sponsoring service and the Chief Officer Finance.	Y	Major	14

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>From a sample of 12 Trust applications, the process is largely being followed as intended. However, in one case (8%) the approval was given by another member of staff in their Chief Officer's absence. Whilst the power had been appropriately delegated, the member of staff in question was also the named applicant on the original application creating a potential conflict of interest.</p> <p>When an applicant is successful in obtaining funds from the Common Good a Funding Agreement is drawn up detailing the general Terms and Conditions and signed. These include a note that ongoing reporting and monitoring are required. The Common Good application criteria also states: <i>'all successful applicants will be required to complete an End of Project Monitoring Form to ensure that any monies awarded are used appropriately'</i>.</p> <p>Project monitoring is required to provide assurances that the Common Good Fund is being used for its intended purpose and that successful applicants are using the funds in accordance with their application. However, there is no evidence of any ongoing monitoring for the cases reviewed, and Finance confirmed that End of Project reviews are not being completed. The Funding Agreement stipulates that, as a condition for receiving financial support, the organisation must fully adhere to the specified monitoring requirements, which are in line with the 'Local Code of Practice for Funding External Bodies and Following the Public Pound.' Consequently, failure to conduct End of Project monitoring and ongoing monitoring constitutes non-compliance with Council policy.</p> <p>Funding agreements may include a payment schedule, but its application is inconsistent. Applicants invoice as required, and payments are made on request without requiring proof of project progress or expenditure. Responsibility falls on applicants to report any changes that affect their use of funds and to return any unused balance, though they have little incentive to do so once funds are received.</p> <p>This creates risk that funds may be spent on projects that fail to achieve their agreed outcomes, with no controls to detect or</p>			

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>address this. In cases with a clear output (e.g. an event or a building improvement), this may provide some assurance, but the lack of monitoring leaves open the risk that Common Good and Trust funds may not be used for the agreed purpose.</p> <p>Council projects and services funded by the Common Good face similar, though lower risk. Standard budget monitoring offers some mitigation, but more detailed reporting on planned versus actual fund usage would better justify the need for ongoing funding.</p>			

2.4 Management response

The Service welcomes the assurance provided through this review and are overall satisfied with the net risk rating of moderate and assurance assessment of reasonable.

The finding that has been categorised as Major is noted and the non-compliance arose due to the specific circumstances that existed following the 2023/24 year end in respect of staffing resources. In line with the Council's risk appetite statement the Chief Officer – Finance accepted greater emphasis being placed on other financial control work that was required at that time, and this was done in light of the initial work that had been undertaken to put in place Funding Agreements for the money awarded. It is acknowledged that further work should have been done to secure End of Project information and action has been agreed to improve processes in the future.

We appreciate the thorough and constructive feedback from the Audit Team and we are committed to implementing the recommendations.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Procedures – Written procedures are limited for both Trusts and the Common Good Fund. Although each has established criteria in line with their constitutional documents, (where such exist), and the Common Good Fund has a flow chart indicating how an application should progress through specified stages, neither have a comprehensive procedure with step by step guidance on handling applications.</p> <p>The Council's duty of stewardship continues to apply over all funds held. The Council's Financial Regulations, Procurement Regulations, and Following the Public Pound Policy should all be followed to provide assurance that funds are being administered appropriately. For example, the Financial Regulations (5.1) set out principles to be applied in the allocation and separation of duties. Failure to apply these would present financial and reputational risks, including an increased risk of error or fraud.</p> <p>For Trusts, substantial reliance is placed on a small number of subject matter experts for the application process, as well as ongoing monitoring and administration of the Trust accounts. Procedures are currently being created for the end of year administrative process. Without comprehensive procedures, if key staff move on there is an increased risk of operational disruption.</p> <p>For the Common Good Fund, there is a more distinct separation between Governance and Finance review of applications. Applications from external organisations and individuals are received during a two-month window. Finance receives applications and adds them to an Applications Register, after supporting evidence has been received. The application is then passed to Governance for approval that the application fits the purpose of the Common Good Fund. Applications are then scored by Finance before collation into a report for the final decision to be made by Council at its budget setting meeting in March.</p> <p>Although checks are completed by different officers and Clusters, scoring of bids is completed by a single member of staff and there are no set objective measured criteria for doing so. Scoring of applications is subjective, with points awarded based on questions such as <i>'What is the quality of the project application?'</i> and <i>'What is the impact of the activity in the application?'</i>. Scores are also contingent on alignment with the Local Outcome Improvement Plan (LOIP), and although information is requested, the weight given to this response is not made clear to applicants. The lack of comprehensive procedures introduces the risk of inconsistent decision making and challenges in training new staff. This could also pose reputational risk to the Council.</p>		
IA Recommended Mitigating Actions			
Detailed procedures should be created for the administration of Trusts and the Common Good Fund, subject to periodic review. These should provide clear guidance on how applications should be objectively reviewed. This could include e.g. scoring mechanisms and panel or peer review. Information on how applications will be assessed should be made available to potential applicants.			
Management Actions to Address Issues/Risks			
<ul style="list-style-type: none"> a) <i>Update the Trust procedure in conjunction with Legal Services.</i> b) <i>The service will create clear guidance on how Common Good Fund applications should be objectively reviewed in conjunction with Legal Services.</i> 			
Risk Agreed	Person(s)	Due Date	

Ref	Description		Risk Rating	Moderate
	Yes	a) Finance Operations Manager b) Finance Partner	September 2025 September 2025	

Ref	Description		Risk Rating	Moderate
1.2	<p>Review of Applications – A sample of 15 Common Good applications was reviewed, and some inconsistencies and weaknesses have been identified:</p> <ul style="list-style-type: none"> • Four applicants (26%) did not provide recent accounts alongside their application. There is no evidence this was followed up prior to the applications being scored. • In four cases (26%) Governance highlighted the applications were for routine operational costs/core funding, which the criteria state 'will not normally be considered'. All four successfully secured funding, resulting in a total of £422,000 being awarded for routine operational costs/core funding. It was recommended that options for reducing reliance on Common Good funding be discussed with one (an ALEO) but there is no evidence of this taking place. • Comments were also made by Governance in four cases (26%) in respect of the extent of benefits derived for the community – e.g. where only a small proportion of the community would benefit, or where benefits may only be derived in future, pending later stages of a project. This was not explicitly taken into account as part of the process. The Council website states: <i>"We can't accept applications for projects or activities that: Do not benefit the wider community."</i> In the absence of clear and consistently applied criteria, it is difficult for officers to judge what may or may not be appropriate use of funds. • In one case (7%) Governance noted that a large sum (£175,000) was being requested towards project costs, but this was small in relation to overall project costs (£2 million), therefore if the application was successful the project may not deliver its objectives pending raising the remaining funding. Although this application was successful, a reduced amount of £50,000 was awarded. Whilst this could reduce exposure to the Fund, it may increase the risk to the project, and therefore to delivery of the Fund's objectives. • In another case, Finance included an application on the list presented to Council for consideration which had not been subject to Governance review. Although in this case the application was ultimately unsuccessful, Council must be able to rely on officers to have completed due diligence in advance of presenting options for selection. • As noted at 1.1 the scoring process is largely subjective, however it is only used as a guide to inform decision making by Council. Of 28 'one-off' applications listed as having met the criteria with scores ranging from seven to 15 points, only six were approved, with scores varying between 10 and 15 points. • Further funding was approved during the budget meeting for both Council and external organisations, for which no applications or other supporting evidence were held on file. The basis for awarding this funding is unclear. <p>There is a risk that decisions are being made on incomplete information, or that this is not being fully documented. In the absence of transparency this could be perceived as inequitable, presenting a reputational risk to the Council.</p>			
IA Recommended Mitigating Actions				
All applications should be reviewed against clear and consistent criteria.				

Ref	Description	Risk Rating	Moderate
	Assurance should be obtained and recorded at each stage of the application process to demonstrate all relevant checks have been completed prior to presentation of options for selection by Council.		
	Management Actions to Address Issues/Risks		
	<i>Finance will create clear guidance on how Common Good Fund applications should be objectively reviewed in conjunction with Legal Services, this will include steps to ensure all the relevant checks have been completed prior to presentation of options for selection by Council. Clarification will also be provided as part of the budget setting report.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Finance Partner	September 2025

Ref	Description	Risk Rating	Moderate
1.3	<p>Council and Related Party Applications – The annual accounts and budget reports set out that the Common Good stands separate from other accounts and funds of the Council, is corporate property and must be applied for the benefit of the community as the Council thinks fit. Income and expenditure is budgeted and recorded separately from Council funds.</p> <p>The Common Good budget, approved annually by the Council, shows the Council is a beneficiary of the majority of these funds through various routes:</p> <ul style="list-style-type: none"> • Direct funding of Council services and activities (63%¹). <ul style="list-style-type: none"> ○ Civic Service, Central Support Services, and Archivist service (22%) ○ Parks maintenance (29%) ○ Events (12%) • Payments to Arms Length External Organisations (ALEO's) which have an element of Council control directly or through association (21%). • Rents paid to the Council in lieu of charging ALEO's and external organisations (1%). • Award of specific grants from the Fund. • Funding paid to Council services for onward payment to external organisations rather than direct. <p>In contrast to external funding and the Fund's sources of income, the cost of direct funding of Council operations is budgeted to increase year on year due to pay awards and inflation. The proportion of funding available for community use is therefore anticipated to reduce. This was acknowledged in the 2024/25 budget review report (Finance and Resources Committee, September 2024), and officers proposed either stopping external applications altogether, or restricting recurring and larger applications. These proposals were not agreed.</p> <p>Since 2024, ALEOs (and external organisations) in receipt of recurring funding have been required to provide an application each year so that their eligibility can be considered and comply with the Following the Public Pound Policy (previously it was assumed support from the Common Good would continue indefinitely). However, these are not treated in the same way as other applications considered at the same time – they are presented as part of the budget rather than as options for discretionary spending.</p> <p>Council services can apply for grants from the balance of funding, and are subject to similar processes. However, a lower standard of evidence is required for the recurring Council expenditure included in the budget: no applications are requested, and they are not subject</p>		

¹ Percentages based on 2024/25 officers' budget proposals. Further allocations to Council services from the balance of funding were then proposed and agreed by Council at the budget setting meeting.

Ref	Description	Risk Rating	Moderate
	to scoring. Opportunities to consider the value for money and community benefits obtained through use of this funding are therefore more limited. The basis for including these recurring costs appears to be historical, with no clear policy decision having been made for their continued provision, or for the difference in treatment. There is a risk of perceived conflict of interest if the Council is seen to be applying differing standards.		
	IA Recommended Mitigating Actions		
	The Council should review and confirm policy in respect of the distribution of Common Good funding. A consistent approach to the presentation of options should be followed in line with this policy.		
	Management Actions to Address Issues/Risks		
	<i>Finance will review the Common Good Policy to ensure a consistent approach is taken in the distribution of Common Good Funding. Any variations or exceptions will be documented.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Finance Partner	September 2025

Ref	Description	Risk Rating	Moderate
1.4	<p>Procurement and Best Value – To maximise the benefit of the available funds from both Trusts and the Common Good, it is essential that consideration is given to obtaining Best Value in purchasing where this forms part of a bid.</p> <p>For internal applications, the Council's Procurement Regulations should apply, regardless of the source of the funds. In five of 12 Trusts cases reviewed (42%), purchases were made using Trust funds, including: subscription to a music teaching and learning platform (£91,000), purchase of artwork (£6,000; £1,000 (of £3,000 total); £42,000 (of £120,000 total)), and museum building improvements (£28,000). Whilst in one case there is evidence of the Chief Officer - Finance highlighting the requirement to follow Council procurement processes, no evidence of their application was obtained by officers in advance of releasing the funds. In three of the cases (20%) (purchase of artwork), a case for the purchase had been set out, and it is likely that there will have been only one source of supply. However, there is no evidence to document due consideration and approvals i.e. through completion and approval of a non-competitive action form, as required by the Council's Procurement Regulations, and no recorded dispensation for this type of purchase. A breach of the Council's regulations increases the risk of legal challenge, as well as reducing the effective buying power of the funds.</p> <p>For external applications to both Trusts and Common Good, there is no requirement for applicants to provide competitive quotations to provide assurance that the selected proposals represent best value. There is insufficient information to determine whether quoted prices are reasonable, and demonstrate best use of the funding.</p>		
	IA Recommended Mitigating Actions		
	Applications for funding (Trusts and Common Good) should be required to include supporting evidence of best value procurement, including where appropriate compliance with internal procurement regulations.		
	Management Actions to Address Issues/Risks		
	<i>We will include within the updated procedures steps to complete the relevant procurement documentation for both Common Good and Trusts. We will also review whether, and if so</i>		

<i>how, steps can be built in to the process to confirm applicants proposals demonstrate value for money.</i>		
Risk Agreed	Person(s)	Due Date
Yes	Trusts - Finance Operations Manager, Common Good – Finance Partner	September 2025

Ref	Description	Risk Rating	Moderate
1.5	<p>Following the Public Pound – The Council’s Following the Public Pound policy outlines the essential requirements for a Funding Agreement, with section 8.4 specifying the minimum standards. However, the Funding Agreement for successful applicants to the Common Good omits or does not clearly define the following points as required by the policy:</p> <ul style="list-style-type: none"> • A statement on the ability of the Council to deduct any debts due to the Council prior to making any further awards • A statement on access to the accounting records of the organisation requires to be given to Council staff, including internal and external audit staff • Details of Council representation of Councillors and Officers • Clarification of procedures for cancelling the Funding Agreement². <p>Where documentation does not align with the essential requirements outlined in the policy, it will not be possible to ensure compliance.</p> <p>Following approval and agreement, grants must be added to the Council’s Following the Public Pound register. The most recent entries on this register were dated March 2023, and therefore it was not possible to match any of the audit sample to a record on the register. Incomplete records reduce transparency and assurance over compliance with policy.</p>		
IA Recommended Mitigating Actions			
Documentation should be reviewed and updated to ensure it aligns with essential policy requirements, including Following the Public Pound.			
All grants should be included on the register in line with the Following the Public Pound policy.			
Management Actions to Address Issues/Risks			
<i>Documentation will be reviewed and updated to ensure alignment with FtPP.</i>			
<i>Details of grants agreed were added to the register, however it has now been identified this was not published. This information is now complete and up to date.</i>			
Risk Agreed	Person(s)	Due Date	
Yes	Trusts - Finance Operations Manager, Common Good – Finance Partner	September 2025	

² The Funding Agreement includes examples of situations that could lead to termination; however, it does not outline the procedure for how an applicant may initiate the cancellation of funding.

Ref	Description	Risk Rating	Major
1.6	<p>Payments and Monitoring – Relevant approvals need to be confirmed, and funding agreements entered into in advance of making payments, to obtain assurance that funds are available and will be used appropriately.</p> <p>Before funds can be released from a Trust it must first be verified that the request aligns with the purpose of the Trust and that there are funds available. Once this has been confirmed approval is then required from the Chief Officer of the sponsoring service and from the Chief Officer - Finance.</p> <p>From a sample of 12 Trust applications, the process is largely being followed as intended. However, in one case (8%, £6,000) the approval was given by another member of staff in their Chief Officer's absence. Whilst the power had been appropriately delegated, the member of staff in question was also the named applicant on the original application creating a potential conflict of interest.</p> <p>When an applicant is successful in obtaining funds from the Common Good a Funding Agreement is drawn up detailing the general Terms and Conditions and signed. These include a note that ongoing reporting and monitoring are required. The Common Good application criteria also states:</p> <p><i>'All successful applicants will be required to complete an End of Project Monitoring Form to ensure that any monies awarded are used appropriately'</i></p> <p>End of Project monitoring is required to provide assurances that the Common Good Fund is being used for its intended purpose and that successful applicants are using the funds in accordance with their application. However, there is no evidence of any ongoing monitoring for the cases reviewed, and Finance confirmed that End of Project reviews are not being completed. The Funding Agreement stipulates that, as a condition for receiving financial support, the organisation must fully adhere to the specified monitoring requirements, which are in line with the 'Local Code of Practice for Funding External Bodies and Following the Public Pound.' Consequently, failure to conduct End of Project monitoring and ongoing monitoring constitutes non-compliance with Council policy.</p> <p>Although funding agreements may contain a schedule of payments, application of this varies. Applicants are requested to invoice for funding in line with the agreement, and payment is made on demand. Payments are not contingent on progress being demonstrated. There is no requirement for the applicant to demonstrate that the funding has been used or paid out in support of project delivery or specific costs incurred and paid for. The onus is on the applicant to volunteer information on any changes in circumstance which would prevent them utilising the funds as intended, and thereafter to return any balance of funding. There would be limited incentive for them to do so if they are already in receipt of the funds.</p> <p>There is therefore a major risk that projects could be paid for which do not deliver the agreed outcomes and outputs, and that this will not be identified and addressed. In cases where there is a clear output (e.g. an event or a building improvement), there may be some assurance that this has been delivered, however the absence of monitoring still means there is a risk Common Good and Trusts' funds may not have been used for their intended purpose.</p> <p>A similar, but lower level of risk applies in respect of Council projects and services funded from the Common Good. Standard budget monitoring processes help to mitigate this risk, but there is limited detailed reporting on planned and actual use of funds. Such reporting could help justify the need for recurring funding (see 1.3 above).</p>		
IA Recommended Mitigating Actions			
<p>The potential for conflict of interest should be considered and addressed as part of the grant approvals process.</p> <p>A risk based and proportionate method of phasing payments contingent on evidenced progress should be developed and implemented, including obtaining documented assurance</p>			

Ref	Description	Risk Rating	Major
	that funds from the Common Good are being used for the agreed purposes. This should be applied to all uses of the Fund, including Council activities.		
	Management Actions to Address Issues/Risks		
	<p>a) <i>The Service will include with the updated Trusts procedure details on a segregation of duties from applicant/authoriser of the funding and a check will be made of these.</i></p> <p>b) <i>A template for project monitoring will be included in a revised funding agreement which will evidence the use of the funds. We will review whether and how payments over a defined threshold should be phased.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	<p>a) Finance Operations Manager</p> <p>b) Finance Partner</p>	<p>September 2025</p> <p>September 2025</p>

Ref	Description	Risk Rating	Moderate
1.7	<p>Investments – The Common Good budget report references an investment strategy for the cash balances held by the Fund, however this has not been reviewed and updated since 2021, at which time options were considered and it was agreed to invest up to £30m in a multi-asset income fund. This was anticipated to generate income, provide asset diversification and potential growth, over the medium to long term (subsequently referenced as three to five years).</p> <p>Supporting records of the fund selection process were not available, and the fund value has been impaired (£3.5 million in 2022/23, £1.1 million in 2023/24, and a further £330,000 projected for 2024/25). Whilst income and movements in fund value are reported as part of the Council's budget monitoring processes there is no evidence of a formal review of performance or future investment strategy.</p> <p>Cash balances from Trusts and the Common Good are held in the Council's Loans Fund, for which a rate of interest is paid based on what the Council earns through treasury management of its own balances throughout the year. Balances in respect of the Common Good Fund have ranged from £10.8 million in March 2022 to £18.4 million in March 2024. Although interest has been paid, minor variations in supporting calculations were identified. The Council charges a management fee based on a percentage of funds held at the start of each year. The Council also benefits from the additional working capital to aid cashflow throughout the year. Alternative options for investment have not been subject to recent consideration.</p> <p>Without regular review and planning, there is a risk that opportunities for enhancing return on investment or addressing investment performance issues, may be lost, eroding the potential benefits of the Funds.</p>		
	IA Recommended Mitigating Actions		
	The Common Good investment strategy and performance should be subject to formal reported periodic review.		
	Management Actions to Address Issues/Risks		
	<i>A formal reported review of the Common Good Investment Strategy will be reported within the Budget Papers for the Common Good.</i>		
	Risk Agreed	Person(s)	Due Date

Ref	Description		Risk Rating	Moderate
	Yes	Finance Partner	June 2025	

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk Level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Council is responsible for the administration of various Trusts and Common Good Funds. The money earned from the investments of the trusts is used for the benefit of the people of Aberdeen, which has previously included maintenance of graves and monuments, administration of the Guildry and its awards, school prizes, the advancement of art, the purchase of works of art and the advancement of Education. There are seven Trusts that are registered as Scottish Charities, which require an audited Annual Report and Accounts to be submitted to OSCR. The total for all Trusts within the Council on 31 March 2024 was £11,415,000.

The Common Good Fund stands separate from the other accounts and funds of the Council and represents a substantial portfolio of land, property and investments. By law it continues to exist for the common good of the inhabitants of Aberdeen City. In the past the Common Good Fund has funded donations to charitable organisations, erection and maintenance of memorial or ornamental statues within the City, funding for the Arts, and granting applications for individuals or groups carrying out their own community projects. The balance of the Common Good Fund at 31 March 2024 was £118,177,000.

Controls in place for the administering of funds from the Trusts and Common Good Fund are detailed in the Council's Financial Regulations.

5.2 Rationale for review

The objective of this audit is to consider whether appropriate governance and controls are being applied over the use of Trusts and Common Good Funds. It is essential that the Council applies appropriate stewardship over these funds, ensuring they are used and maintained to best effect, in line with their defined purposes. If controls and governance are not effective, there is a risk funds may be used incorrectly, or their value reduced, with the potential for reputational damage and financial consequences for the Council. This area has not been looked at in recent years.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Cluster** level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- **Governance** – The overall management of Trusts/Common Good across the Council and central framework of control, including policies and procedures, and monitoring and reporting.
- **Grants/Donations** – Reviewing against Following the Public Pound and Trust/Common Good requirements.
- **Trust Investments** – Checking that investments were made in accordance with requirements of Trusts/in line with Council's Treasury Strategy.
- **Expenditure** – Ensuring that procurement demonstrates Best Value.
- **Use of Common Good Property, Plant and Equipment** – Reviewing whether use/disposal meets Governance requirements laid down in the Local Government (Scotland) Act 1973 and the Community Empowerment (Scotland) Act 2015.

The financial reporting of Trusts/Common Good Funds is a focus of External Audit. As such we will not look to recreate their work and instead seek to gain assurance around the internal framework of control.

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, guidance.

Due to hybrid working across the Council, this review will be undertaken primarily remotely.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Sarah Poppe (**audit lead**)
- Colin Harvey, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Council key contacts

The key contacts for this review across the Council are:

- Andy MacDonald, Executive Director Corporate Services
- Jonathan Belford, Chief Officer - Finance (**process owner**)

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	15-Aug-2024
Scope agreed	23-Aug-2024
Fieldwork commences	26-Aug-2024
Fieldwork completed	20-Sep-2024
Draft report issued	11-Oct-2024
Process owner response	1-Nov-2024
Director response	8-Nov-2024
Final report issued	15-Nov-2024

