



Internal Audit Report

Following the Public Pound

Issued to:

Richard Ellis, Interim Director of Corporate Governance
Steven Whyte, Head of Finance
Ciaran Monaghan, Head of Service, Office of the Chief Executive
Neil Carnegie, Acting Head of Communities and Housing
Euan Couperwhite, E&CS Head of Policy Performance and Resources
Roderick MacBeath, Senior Democratic Services Manager

EXECUTIVE SUMMARY

It is a statutory requirement to adhere to the Convention of Scottish Local Authorities (COSLA) "Code of Guidance on Funding External Public Bodies and Following the Public Pound" when dealing with external organisations which receive grants from public funds. The Council's Local Code of Practice for Funding External Bodies and 'Following the Public Pound' was revised and approved by the Finance, Policy and Resources Committee on 15 September 2015.

The objective of this audit was to review arrangements in place to ensure that public funds are awarded against set criteria which complies with the following the public pound principles and procedures. Although no particular problems have been identified where records were on file, quality and retention of evidence to demonstrate that the procedures are being applied is mixed. This includes updating the grants database, receipt and review of monitoring reports, and completion of risk assessments. In order to address this Finance is developing training and will carry out quarterly quality checks.

For the funding streams reviewed, where there were multiple applications for a finite budget, it was not always apparent how the value of individual awards had been determined, which may lead to a risk of challenge. With reducing resources it will become more important to be able to justify distribution of funds. In delivering training to budget holders, Finance will take the opportunity to obtain details of existing processes for awarding funding and use this to inform the next review of the Code

1. INTRODUCTION

- 1.1 In 1996 the Accounts Commission and Convention of Scottish Local Authorities (COSLA) published a “Code of Guidance on Funding External Public Bodies and Following the Public Pound”. In June 2005, the Scottish Government issued a “Direction on the Code of Guidance on Funding External Bodies and Following the Public Pound” requiring all Scottish Local Authorities to comply with the 1996 Code. Given this statutory requirement, it is imperative that all Services within the Council comply with the Code when dealing with external organisations which receive grants from public funds.
- 1.2 The Council compiled a Local Code of Practice for Funding External Bodies and ‘Following the Public Pound’ which was approved by Council on 6 October 2011. The Code of Practice was revised following an Internal Audit review of Tier 2 ALEOs in February 2015 in which it was noted that governance arrangements applied per the 2011 Code of Practice were determined only by the value of the funding awarded. This exposed the Council to the risk of being unable to manage or mitigate any further potential risks inherent with its association with funded organisations.
- 1.3 The funding tiers incorporated into the Code of Practice were revised, and officers are now required to identify, grade and categorise each risk with reference to the assessed level of control assurance. Application of the revised Code should, therefore, ensure that there are suitable and proportionate governance arrangements for all funding agreements. The revised Code was approved by the Finance, Policy and Resources Committee on 15 September 2015.
- 1.4 The objective of this audit was to review arrangements in place to ensure that public funds are awarded against set criteria which comply with the principles of following the public pound requirements. As ALEO governance arrangements have recently been reviewed in Internal Audit Report AC1621 (February 2016) and Service management of ALEO performance and payments will be reviewed as part of a further planned audit in 2016/17, this audit has focused on grant funding arrangements: a sample of documentation and payments for which has been selected and reviewed.
- 1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Steven Whyte, Head of Finance.

2. FINDINGS AND RECOMMENDATIONS

2.1 Code of Practice

- 2.1.1 The Council has a duty to ensure proper accountability for public funds used in delivering services, irrespective of the means of service delivery. It discharges this responsibility by ensuring that there is adequate guidance in place to guide officers through the process.
- 2.1.2 The revised Code of Practice was approved by the Finance, Policy and Resources Committee in September 2015, and sets out principles of best practice to ensure that governance arrangements are suitable and proportionate. The level of scrutiny applied varies depending on risk, control and funding value: four Tiers are used, with Tier 1 requiring the highest level of scrutiny.
- 2.1.3 In order to ensure that the principles are adopted, and that best practice is followed, all officers responsible for considering applications for funds, for reviewing the applications and recommending awards, and for monitoring agreements must be fully aware of their responsibilities. Whilst each of the officers consulted during the course of the audit acknowledged their awareness of the Code, none had been specifically trained on the application of the principles and best practice.
- 2.1.4 The provision of formal training would provide assurance that relevant staff have been properly briefed on their responsibilities and that they know what is expected of them. If officers are not trained in the application of the procedures, there is a risk that either they will not be applied correctly and consistently, or that they will not be applied at all due to a lack of awareness of their existence and importance.
- 2.1.5 There are some elements of the Code of Practice which require specialist skills. For example, the organisations' policies and procedures governing the way their finances are handled should be reviewed every two years. How these reviews should be carried out is not included in the guidance. As a result, the checks are not always being done, or are not being appropriately evidenced.
- 2.1.6 Under the revised Code of Practice, there is no requirement for the Code to be applied for awards under £15,000. However, procedures for Tier 4 (funding between £15,000 and £75,000) may be followed if warranted by the level of associated risk. There is no guidance on how the level of risk should be assessed, therefore, the procedure may not be followed for funding under this threshold.

Recommendation

Finance should ensure guidance, training and support is available for officers responsible for applying the Code of Practice, including: application of the Code, reviewing organisations financial policies, and risk assessing low value grants.

Service Response / Action

Agreed. Training is currently planned for Services Accounting staff during October/November 2016, and will thereafter be rolled out to budget-holders.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Significant within audited area

2.2 Grants Database

- 2.2.1 Organisations may apply for funding from various sources within the Council. A central register of funding awards is currently maintained by Finance. This is in spreadsheet

format and is populated using information received from budget holders. In order to create a more efficient process, a database is being created in the Covalent system which it is intended will be populated directly by budget holders with the details all grants awarded. Finance will have an overarching responsibility for the database, and will undertake quarterly reviews of the data.

- 2.2.2 Whilst it is currently possible for budget holders to obtain information from the central register this new database will make it much easier for them to consult the database to gain an accurate overview of funding awarded to each organisation by the Council before making a decision on further funding. Development of the database is ongoing and it has been noted that data protection and information security issues must be addressed prior to it going live for budget holders.
- 2.2.3 There is currently no explicit requirement for officers to check for existing funding prior to recommending or approving a new grant. If the data is current, carrying out such a check would avoid the risk of duplicate funding. Without such a check there is also a risk that total funding to an organisation might exceed the current funding Tier, and the checks applied may fall short of those required under the Code of Practice – which requires cumulative annual funding to be taken into account.
- 2.2.4 Appendix C of the revised Code of Practice identifies a list of the data required to be held in the register. The majority of this is being recorded, with some minor exceptions. Finance is continuing to develop the list of requirements alongside development of the database.

Recommendation

Services should ensure the information is passed to Finance in order for the central register to be populated, and thereafter ensure the grants database is populated with existing grants, and maintained up to date, including all of the details required under the revised Code.

Services should check existing funding relationships prior to recommending or approving new grants.

Service Response / Action

Agreed.

This requirement will be included in the training for budget-holders and there will be quarterly checks undertaken by Finance in conjunction with budget-holders to ensure the database is populated correctly.

The checklist will be amended to include the check for existing funding relationships prior to approval of new grants.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Significant within audited area

2.3 Compliance with the Code of Practice

- 2.3.1 A review of applications and awards from a cross-section of Council funds revealed inconsistencies in levels of compliance with the Code of Practice. Without the required information, applications may not have been fairly assessed: meaning that the Council would not be able to demonstrate that funds had been distributed fairly and equitably; and necessary checks may not have been completed thus increasing the risk to the Council.

- 2.3.2 All awards are authorised at the correct level, however not all Services are able to demonstrate how each bid has been assessed against the Council's (or specific Funds') strategic priorities and outcomes, and there is no pre-determined standard or process to guide selection between organisations applying for the same funding stream. Nor is there any means of determining how the value of funding to be awarded has been reached. Submitting applications in a standard format would aid the assessment of their alignment with the Council's objectives, and scoring to enable and demonstrate equitable distribution of funds.
- 2.3.3 Applications or similar supporting documents are not submitted for some funding from the Community Learning and Development (CLD) budget, or for funding which is allocated to the applicant directly from the Common Good Fund. Awards are often made based on the amount awarded in previous years, and this is approved by the Communities, Housing and Infrastructure Team for CLD grants; and either by full Council at the annual budget setting meeting, or by the Finance, Policy and Resources Committee if requests for funding are received during the course of the year, for the Common Good Fund. In respect of CLD the Service has noted that it intends to develop new processes including closer alignment between projects and locality plans, following a recent restructuring exercise.
- 2.3.4 In the absence of applications and consistent supporting information there is a risk of funds being provided and used for purposes which are not clearly aligned with the Council or the Funds' objectives. The Council would be at risk of reputational damage, but may have no recourse to recover funds for which the use was not specified in advance.

Recommendation

Finance should update the Code of Practice to require Services to be able to demonstrate alignment of funded organisations plans with the Council's objectives, fair comparison of applications, and equitable distribution of funds

Service Response / Action

The requirement to demonstrate alignment of objectives will be included in the training for budget-holders and there will be quarterly checks undertaken by Finance in conjunction with budget-holders to ensure this is being done.

Training for budget-holders will provide an opportunity to obtain details of the processes for awarding funding which will be used as fact-finding to inform the next review of the Code.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Significant within audited area

- 2.3.5 Aberdeen City Council has funded activities in relation to its twin cities of Bulawayo (since 1986 – currently £45,000 per annum) and Gomel (since 1990 – currently £22,000 per annum) from the Common Good Fund. The Council has a high degree of control over both trusts with councillors chairing both, and trustees of each comprising councillors and Council appointees in addition to appointees of local organisations. The treasurer of both trusts is the Council's Head of Finance, and the secretary of both is the Head of Legal and Democratic Services. Both trusts are deficit funded by the Council. The Service is not applying the requirements of the Following the Public Pound Code of Practice to these grants from the Common Good Fund. The Head of Service, Office of Chief Executive has advised Internal Audit that the Council has instructed the undertaking of a review of expenditure from the Common Good Fund.
- 2.3.6 Under the 2011 Code of Practice, there were specific requirements for funding between £2,500 and £15,000. Twelve awards in this category were tested. All of the awards

checked had been properly authorised. However, evidence was not held on file to demonstrate that the requirements of the Code of Practice had been entirely fulfilled.

- 2.3.7 An annual income and expenditure account and approved statement of cash balance was required to enable the organisation's financial position to be assessed, and to ensure it was likely to be able to continue as a going concern in the near future. Without this information it will be difficult to assess the need for the funding requested, and there is a risk that the money will be lost if the organisation is unable to continue as a going concern. In 6 of 12 cases this had not been obtained, or had not been retained on file. This is no longer required for grants of this value under the revised Code of Practice, unless the Service considers the risk sufficient to apply the Tier 4 requirements.
- 2.3.8 In order to confirm that the relevant information has been received, and that the required checks have been completed, the Budget Holder should complete and file a copy of the checklist at Appendix A to the Code of Practice. This covers: criteria of the grant or funding; information required from applicants; approval; payments; the funding agreement; consideration for inclusion in the group accounts; and updating the central register. If the checklist is not completed, there is a risk that some of the information or checks required will be omitted. Checklists had not been completed for any of the grant awards reviewed. This is no longer required for grants of this value under the revised Code of Practice, unless the Service considers the risk sufficient to apply the Tier 4 requirements.
- 2.3.9 A funding letter sets out the terms and conditions associated with an award. Without this, it is difficult to enforce them which in turn increases the risk of funds being used inappropriately. The revised Code of Practice therefore includes this as part of the minimum requirements for all grants regardless of value. However, funding letters were only on file for 7 of 12 grants reviewed below £15,000.

Recommendation

Services should ensure that they are completing funding agreements and checklists for all funding awarded.

Service Response / Action

Agreed. This requirement will be included in the training for budget-holders and there will be quarterly checks undertaken by Finance in conjunction with budget-holders to ensure this is being done.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Significant within audited area

- 2.3.10 Under the 2011 Code of Practice, an annual statement from the funded organisation was required to be submitted to the Head of Service. As this check would have been done at the end of the financial year, the Code of Practice which was approved in 2015 was in operation. Under the revised Code, there is no requirement for it to be followed for funding of less than £15,000 unless deemed prudent when the level of risk associated with the arrangement is assessed. However, organisations which applied or were granted funding under the 2011 Code should still have been required to provide this information in 2015/16 as this will have formed part of the terms and conditions in place at the point their funding was agreed.
- 2.3.11 No formal agreement was drawn up with any of the four organisations reviewed that were awarded funding up to £15,000 from the Common Good Fund, and none submitted monitoring reports. An organisation which was awarded funding from the Twinning budget should have submitted a report, but none was received, and this was not followed up.

Without monitoring reports, the Council has no assurance whether and how the funding has been used, and could result in an organisation which has spent funds inappropriately being funded again in future and repeating the practice.

Recommendation

Services should ensure that they are obtaining monitoring reports where required under the Code of Practice and that further grant payments and award decisions are withheld pending receipt.

Service Response / Action

Agreed. This requirement will be included in the training for budget-holders and there will be quarterly checks undertaken by Finance in conjunction with budget-holders to ensure this is being done.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Important within audited area

- 2.3.12 Two awards between £15,000 and £75,000 were reviewed. Both were paid from the Fairer Aberdeen Fund. The Fairer Aberdeen Fund Co-ordinator has good processes in place for ensuring that all of the information required per the Code of Practice is obtained, that the necessary checks are done, that applications are assessed fairly, and that approval is granted by the Fairer Aberdeen Fund Board. However, operational risk assessments were not completed.
- 2.3.13 Each of the officers consulted during the course of this audit (for all levels of grant funding under both Codes of Practice) confirmed that annual financial checks are completed by Finance colleagues, and that the results of these are discussed at budget holders meetings. However, these results are not held on file with the rest of the supporting evidence for grant funding to demonstrate that these checks had been completed and that Finance was satisfied with the results.
- 2.3.14 In addition, although the Service confirmed the checklist at Appendix A of the Code of Practice is followed, the checklist itself is not completed and retained. These elements are still required under the 2015 Code of Practice.

Recommendation

Services should ensure that they are completing operational risk assessments, Finance checks, and the Appendix A checklist and that evidence is held on file for all relevant grants.

Service Response / Action

Agreed. This requirement will be included in the training for budget-holders and there will be quarterly checks undertaken by Finance in conjunction with budget-holders to ensure this is being done.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Important within audited area

- 2.3.15 Three awards over £75,000 were tested: one from the Fairer Aberdeen Fund, and two from the CLD General Services Fund.
- 2.3.16 Although the majority of the requirements for this level of funding were met, there is limited evidence to demonstrate that proper consideration was given to the financial position and governance arrangements of the organisations, or to the risk to which the Council would

be exposed by entering into arrangements with the organisations, before funding was approved. The recommendation at 2.3.14 above applies.

- 2.3.17 Under the 2011 Code of Practice annual monitoring reports from the organisations demonstrating the outcomes they had achieved should have been reported to the appropriate Service Committees. Although annual reports were received from each of the organisations, they were not presented to Service Committees. Under the 2015 Code of Practice, this has been relaxed: reports relating to grants under £7,000,000 are reviewed by Service Management Teams, and under £300,000 should be signed off by the Head of Service, however this has not been evidenced for the three grants reviewed.

Recommendation

Services should ensure that grant funding monitoring reports are approved by the Service Committee, Service Management Team, or Head of Service as applicable under the Code of Practice.

Service Response / Action

Agreed. This requirement will be included in the training for budget-holders and there will be quarterly checks undertaken by Finance in conjunction with budget-holders to ensure this is being done.

Implementation Date

March 2017

Responsible Officer

Senior Accountant

Grading

Important within audited area

AUDITORS: D Hughes
C Harvey
A Taylor

Appendix One – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.