

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	23 March 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2303 – Following the Public Pound
REPORT NUMBER	IA/AC2303
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 Following the Public Pound

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 Following the Public Pound

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 The proposals in this report have no impact on the Council Delivery Plan.

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 AC2308 – Following the Public Pound

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Following the Public Pound

Status: Final

Date: 13 February 2023

Risk Level: Corporate

Report No: AC2303

Assurance Year: 2022-23

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	20/07/2022	20/07/2022
Scope agreed	27/07/2022	27/07/2022
Fieldwork commenced	01/08/2022	20/09/2022
Fieldwork completed	16/09/2022	06/10/2022
Draft report issued	07/10/2022	07/10/2022
Process owner response	28/10/2022	24/11/2022
Director response	04/11/2022	10/02/2023
Final report issued	11/11/2022	13/02/2023
Committee	23/03/2023	

Distribution	
Document type	Assurance Report
Director	Steven Whyte, Director – Resources Andy MacDonald, Director – Customer Services Gale Beattie, Director – Commissioning Sandra Macleod, Chief Officer – Health and Social Care Partnership
Process Owner	Jonathan Belford, Chief Officer – Finance
Stakeholder/s	Lesley Fullerton, Finance Operations Manager Jenni Lawson, Interim Chief Officer - Governance*
Final Only	External Audit
Lead auditor	Agne McDonald, Auditor

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5	Appendix 2 – Assurance Scope and Terms of Reference	Error! Bookmark not defined.

1 Introduction

1.1 Area subject to review

Councils fund arms-length and external organisations (ALEOs) to provide important services to the public, or to provide social benefits such as employment opportunities. These funding arrangements are often more complex than purchase contracts for goods or services. To ensure that public money is used properly and achieves Best Value, it must be possible to trace funds from the Council to where they are ultimately spent – to ‘Follow the Public Pound’ (FtPP) across organisational boundaries.

FtPP means ensuring that there is proper accountability of public funds used in delivering services, irrespective of the means of service delivery.

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”, providing statutory backing and requiring all Scottish Local Authorities to comply with the 1996 Code. Given this statutory requirement, it is imperative that all operations within the Council comply with the Code when dealing with external organisations that receive grants using public funds.

The Council's Financial Regulations require Chief Officers to comply with the Council's Local Code of Practice for Funding External Bodies and ‘Following the Public Pound’ (the Council's FtPP Code), which was approved by the City Growth & Recourses Committee on 26 September 2019. The level of checks undertaken on external organisations as part of the FtPP grant application assessment process increases in line with the level of grant funding applied for and / or the level of control the Council has over the external organisation. Checks increase from Tier 4 to Tier 1 with Tiers defined as follows:

Funding:

- Tier 1 - Cumulative Annual Funding is greater than £7 million
- Tier 2 - Cumulative Annual Funding is greater than £300,000 but less than £7 million
- Tier 3 - Cumulative Annual Funding is between £75,000 and £300,000
- Tier 4 - Cumulative Annual Funding is between £15,000 and £75,000

Risk/Control:

- Tier 1 - An organisation that is significant in size and over which the Council exercises substantial control i.e. those whose annual results are included in the Council's Group Accounts
- Tier 2 - An organisation over which the Council exercises substantial control but is smaller in operational scale to the above i.e. those defined as part of the Council's Group but whose annual results are not included in the Group Accounts due to materiality
- Tier 3 – n/a
- Tier 4 - An organisation that the Council has an interest in but does not control

Tier 1 grants were not covered as part of this review as FtPP checks for Tier 1 organisations will be covered as part of a planned 2022/23 Internal Audit review of ALEOs – Performance and Payments.

1.2 Rationale for the review

The objective of this audit is to ensure that there is proper accountability for public funds used in delivering services, irrespective of the means of service delivery. Due to the risk of reputational damage to the Council where statutory obligations are not met and that public funds are misused, wasted, or lost; this review has been included in 2022/23 audit plan.

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 Terms and Rating Scales. 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
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to Following the Public Pound (FtPP).

The Council has a Following the Public Pound procedure (the Council's FtPP Code) for managing grant payments to external organisations, covering relevant financial and operational risk considerations, as well as funding agreement, and payment requirements. Whilst generally comprehensive, some issues were noted, including no exemption for grants administered by the Council on behalf of other organisations where rules are already prescribed on ensuring Best Value; lack of clarity on required checks of financial statements for tier 3 and 4 grants; lack of clarity on when monthly payments rather than quarterly payments are required to reduce the risk of financial loss; and an absence of debt checks required by the Council's FtPP Code in the Code checklist for budget holders. These issues make it confusing for budget holders applying the Council's FtPP Code.

Operational assessments of non-financial risks were not undertaken for eight (80%) grants reviewed and partial for one (10%), increasing the risk grants will be awarded to unsuitable organisations and that intended objectives of grant funding will not be achieved. Also, payments were not made with sufficient frequency for one grant (£158k) since it was made as a single grant payment despite exceeding the threshold requiring quarterly payments. These practices increase the risk of financial loss to the Council due to an organisation ceasing to operate.

Recommendations have been made to improve FtPP compliance, including reviewing the Council's FtPP Code; devolving the use of the central register from Finance to budget holders to act as an FtPP checklist; introducing regular reconciliations of the central register for monitoring FtPP compliance; requiring functions to evidence their FtPP checks prior to payment; and establishing a system of control to prevent grant payments exceeding a maximum payment value.

Where it is recognised that many stakeholders are involved in the FtPP process, recommendations have been focused on Management centrally to help ensure improvement across all functions who provide grants. A recommendation has also been made that the Council's FtPP Code should be reviewed and updated as appropriate. It is recommended that management take this opportunity to review the process overall to ensure it is fit for purpose and can be applied by all relevant functions.

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.
1.5	<p>Operational Assessments – The Council’s FtPP Code requires operational assessments of organisations for awards in excess of £15k to assess relevant non-financial risks. This includes matters such as adequacy of governance arrangements; compliance with company or charity requirements; and risk of reputational damage through association with the organisation.</p> <p>Operational assessments of non-financial risks were also not undertaken for eight (80%) grants reviewed and partial for one (10%).</p> <p>In the absence of operational risk assessments, there is a greater chance of reputational damage to the Council through association with a poorly governed organisation, that does not have objectives and values that are aligned to those of the Council.</p>	Yes	Major	12
1.8	<p>Payments – The following was reviewed to ensure payments were being made in line with the FtPP Code:</p> <ul style="list-style-type: none"> • A checklist was completed by the Budget Holder documenting all FtPP checks had taken place as required prior to payment. • The Council verified if the grant recipient had any sundry debts, council tax or NDR owed to the Council prior to payment. • A payment schedule was agreed with the grant recipient. • Payments of £15k per annum were made in a minimum of four instalments <p>It was found that:</p> <ul style="list-style-type: none"> • FtPP checklists were absent for seven grants (70%) and partial for one (10%). • The payment schedule is part of the funding agreement and funding agreements were absent for two (20%) organisations. • There was no evidence of debt checks prior to payment for any of the grants reviewed (100%), increasing the risk debts will not be settled following award of grants, where 	Yes	Major	15

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>debts are not deducted from grant payments or of payment to organisations who are not financial sustainable.</p> <ul style="list-style-type: none"> One large payment (£158k) was made as a single payment increasing the risk of greater financial loss to the Council at the time the payments were made should the funded organisations cease to operate. 			

2.4 Management response

The Council has many situations where it is relying on other organisations to deliver services, to provide services, activities, or projects for the benefit of the community and citizens of Aberdeen. In 2022/23 a total of 158 grant funding situations are recorded on the Council register that fall within Tier 2 to Tier 4 of the Following the Public Pound guidance. This amounts to funding of £6.042m, an average of c.£38,000 per grant. The sums involved mean the Council must be robust in its approach to awarding, administering, and monitoring the funding that it provides.

Significant resources are deployed through the Council's Assurance Hub to support the largest and most substantial financial commitments and Group Entities (Tier 1 ALEOs) and reasonably relies on the application of guidance, and the process and procedure of officers across the Council to manage and monitor the other grant funding relationships that are of a lower value.

These activities are undertaken by skilled individuals who very often have a wide and detailed knowledge of the area of interest to which grants apply and they are supported by other staff, including members of the Finance team. From discussion and feedback through follow up work with Council officers, Finance contacts and contact with budget holders, management believe, in general, that reasonable assurance can be placed on grant funding arrangements.

It is, however, clear from the recommendations that the Council can provide a clearer and more robust framework for Council officers to work with, to ensure that it is up to date and relevant to the constantly changing environment in which it works. The sample tested has shown gaps in how the Council has assessed applications, kept records, and managed payments in particular.

The FtPP guidance and process is on the workplan for the Chief Officer – Finance with the intention of reviewing, particularly considering the many grant funding arrangements that were required of the Council during the Covid Pandemic. This work will be advanced because of the audit.

Action on all the recommendations has been agreed and specifically in respect of the major recommendations highlighted above will have action taken in the next 6 weeks.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Written Policies and Procedures – The Council’s FtPP Code was approved by the Finance, City Growth and Resources Committee in September 2019, and sets out the governance arrangements for grants or financial support provided to external bodies by the Council. This does not apply to payments made under a straightforward contract for goods or services, which are covered by the Council’s Procurement Regulations.</p> <p>Whilst the Council’s FtPP Code is detailed and available to all Council employees via the Council’s intranet, the document has not been reviewed since before the COVID-19 pandemic. Finance advised that COVID-19 related grants administered by the Council were not subject to FtPP checks however the Council’s FtPP Code does not exempt grant payments administered by the Council on behalf of the Scottish Government. A review would help ensure the FtPP Code describes accurately grants that are in scope of the Code, and those that are not, including if appropriate grants administered on behalf of the Scottish Government.</p> <p>It was also noted that despite the Council’s FtPP Code requiring financial statements for tier 3 and 4 grants, there is no requirement to undertake any financial assessments for these organisations or guidance on how the financial statements should be assessed. In the absence of guidance there is an increased risk that funding of up to £300,000 will be awarded to an organisation with going concern issues should financial statements not be assessed as expected or that grant awards will be unnecessarily delayed awaiting documentation, should the Council deem it appropriate to exempt these organisations from assessments of financial statements – the Council’s FtPP Code therefore needs to clarify this requirement for tier 3 and 4 grants.</p> <p>In relation to payments, the Council’s FtPP Code states:</p> <p><i>“Payments in excess of £15,000 per annum should be in no fewer than four instalments per financial year and preferably made monthly to minimise the Councils exposure in the event of the organisation encountering financial difficulties”.</i></p> <p>It is not clear when payments should be monthly increasing the risk of high value single payments and of associated higher value financial loss should a funded organisation cease operating.</p> <p>The Council’s FtPP Code includes a useful checklist for budget holders to ensure they are covering FtPP requirements. Under the Council’s FtPP Code, prior to any payments being made the Council must ensure that no sundry debts, council tax or non-domestic rates are owed by the organisation to the Council, in order that these are deducted from any grant payment – it was noted this is not included in the checklist increasing the risk these checks will be omitted. This was the case as described in 1.8 – Payments below, for all ten (100%) grants reviewed as part of this audit.</p> <p>Finance advised that the FtPP Code is currently under review. A recommendation is included to track progress and to consider the above points.</p>		
IA Recommended Mitigating Actions			

Ref	Description	Risk Rating	Moderate
	The Council's FtPP Code should be reviewed and updated as appropriate, with consideration given to clarifying requirements in relation to financial statements; grant payment frequency; grants administered by the Council on behalf of other organisations such as the Scottish Government; and updating the checklist where necessary, including in relation to debt checks.		
Management Actions to Address Issues/Risks			
Agreed.			
Risk Agreed	Person(s)	Due Date	
Yes	Finance Operations Manager	September 2023	

Ref	Description	Risk Rating	Moderate
1.2	<p>Register of Interests – Paragraph 1.18 of the Council's FtPP Code states:</p> <p><i>“The Council will maintain an up-to-date register of interests (representation on external bodies) and periodically review the indemnity arrangements in place for directors and officers, and trustees within external bodies. The master list of appointments will be held by the Chief Officer – Governance”.</i></p> <p>Whilst individual declarations of interest were available on the Council's website at a Councillor specific level, a master list of appointments is not being maintained by Governance as required, with no register of interests maintained for Directors and officers.</p> <p>Management advised that as part of the Annual Accounts/Annual Governance Statement processes they gather information from officers of any conflict they might have but there is the opportunity for enhancement and increased rigour to the process.</p> <p>Current operations increases the risk of reputational damage to the Council due to an officer or Director's association with an external organisation awarded a grant by the Council.</p>		
IA Recommended Mitigating Actions			
Governance should establish an up-to-date register of interests for Council officers involved in assessing and awarding grants and review this periodically to ensure representation on external bodies does not present unacceptable risks to Council.			
Management Actions to Address Issues/Risks			
Agreed.			
Risk Agreed	Person(s)	Due Date	
Yes	Chief Officer – Governance	September 2023	

Ref	Description	Risk Rating	Moderate
1.3	<p>Supporting Documentation – The Council's FtPP Code requires the following documentation to be provided to determine if an organisation has adequate financial and governance arrangements:</p>		

	<ul style="list-style-type: none"> • Tier 2 (£300k - £7m): Audited/approved annual accounts for preceding year; Statement of Organisational Strategic Objectives; Corporate Risk Register; and Constitution/Governance documents. • Tier 3 (£75k - £300k): Approved Annual Income and Expenditure Accounts, Statement of cash balance and Constitution/Governance Documents. • Tier 4 (£15k - £75k): Annual Income and Expenditure Accounts, Statement of cash balance and Constitution/Governance Documents. <p>A sample of 10 grants was selected to ensure the relevant documentation was obtained prior to award (two Tier 2; five Tier 3; and three Tier 4 grants). All necessary documentation was available for six (60%) grants; however documentation was missing as follows for four (40%):</p> <ul style="list-style-type: none"> • The Corporate Risk Register required for a tier 2 grant of £1m was not made available. • Another tier 2 grant to a charity for £337k was assessed based on unaudited rather than audited accounts. • In addition, two tier 3 grants (£158k and £80k respectively) lacked the necessary governance and financial documentation. <p>One of the tier 3 exceptions was thought to be out of scope by the respective Cluster since it involved the administration of funding received from another organisation and payments were in arrears following evidence of completion of associated works, meaning they were low risk. A recommendation has already been made at 1.1 to review and update the Code to address this where necessary.</p> <p>Otherwise, where grants are made in the absence of documentation in support of the adequacy of governance arrangements and financial stability of funded organisations, there is a greater risk of financial loss due to funded organisations ceasing operating, Best Value not being achieved due to poor governance arrangements, and reputational damage to the Council.</p>
IA Recommended Mitigating Actions	
<p>a) Functions should ensure documentation is obtained as required by the Council's FtPP Code for review prior to awarding any related grant.</p> <p>b) Finance should establish arrangements for functions to save supporting documentation centrally to facilitate audits of FtPP compliance undertaken by Finance.</p>	
Management Actions to Address Issues/Risks	
<p><i>Agreed, the Chief Officer – Finance will remind all Functions of their requirements under the FPP Code of Practice to ensure the necessary information and documentation is obtained and reviewed prior to grant funding being paid. The finance team have considered where documents can be held centrally and believe this can be done through SharePoint.</i></p>	
Risk Agreed	Person(s)
Due Date	
Yes	Chief Officer - Finance
	March 2023

Ref	Description	Risk Rating	Moderate
1.4	<p>Financial Assessments – The Council's FtPP Code requires specific financial assessments of tier 1 (outwith scope of audit) and tier 2 grants that are detailed in the Council's FtPP Code. In relation to tier 2 grants this requires the budget holder, in conjunction with Finance, to check and document that sufficient cash exists to enable the organisation to meet its financial obligations for the foreseeable future (at least three months); that material sources of external funding are secure; and to assess the ability of the organisation to continue as a going concern.</p>		

<p>Financial assessments were absent for one (50%) tier 2 grant of £1m reviewed by Internal Audit and partial for another (50%) for £337k (partial check since no documented check of sufficient cash to meet financial obligations for next 3 months).</p> <p>Finance advised that one of these tier 2 grants should be out of scope of the Council's FtPP Code since the associated project was funded by a specific Scottish Government grant and the Scottish Government had approved the award of the grant to the organisation concerned. In addition, Finance advised the other grant should be out of scope since the organisation is well known to the Council.</p> <p>However, the Council's FtPP Code does not currently exempt such grant recipients from going concern checks prior to grant awards and in the case of the Scottish Government grant, the Council is administering payments on behalf of the Scottish Government, meaning the Council is responsible for payment control and ensuring security of public funds on behalf of the Scottish Government. Any change in FtPP policy would need to be formalised and approved by Council before the associated risk of not undertaking financial assessments as described in the FtPP Code is acceptable. A recommendation has already been made at 1.1 to review the FtPP Code. A recommendation is also made below to address the non-compliance with the current FtPP Code.</p>		
IA Recommended Mitigating Actions		
<p>Functions should ensure financial assessments are completed and recorded in line with the Council's FtPP Code prior to awarding any related grant.</p>		
Management Actions to Address Issues/Risks		
<p><i>Agreed, the Chief Officer – Finance will remind all Functions of their requirements under the FPP Code of Practice to ensure that the necessary checks are in place and records kept.</i></p>		
Risk Agreed	Person(s)	Due Date
Yes	Chief Officer - Finance	March 2023

Ref	Description	Risk Rating	Major
1.5	<p>Operational Assessments – The Council's FtPP Code requires operational assessments of organisations for awards in excess of £15k to assess relevant non-financial risks. This includes matters such as adequacy of governance arrangements; achievement of organisational objectives; compliance with company or charity requirements; and risk of reputational damage through association with the organisation. As with financial assessments, the Budget Holder undertaking the operational capability assessment should document their findings, together with their recommendation as to whether the organisation is fit and proper to be considered for funding. Where conditions need to be attached to any Funding Agreement, these should be documented also. The Council's FtPP Code advises Finance can be contacted for advice on undertaking these assessments.</p> <p>An operational assessment was available for one (10%) out of ten grant awards tested, and partial for another (10% - partial since missed checks of reputational damage, and compliance with requirements of Companies Act) with assessments absent for eight (80%) awards.</p> <p>In the absence of operational risk assessments, there is a greater chance of reputational damage to the Council through association with a poorly governed organisation, which does not have objectives and values that are aligned to those of the Council.</p>		
IA Recommended Mitigating Actions			

Functions should conduct operational assessments and record the findings prior to awarding grants to external organisations.		
Management Actions to Address Issues/Risks		
<i>Agreed, the Chief Officer – Finance will remind all Functions of their requirements under the FPP Code of Practice to ensure that the necessary checks are in place and records kept.</i>		
Risk Agreed	<i>Person(s)</i>	<i>Due Date</i>
Yes	Chief Officer - Finance	March 2023

Ref	Description	Risk Rating	Moderate
1.6	<p>Grant Monitoring Arrangements / The Central Register –The Council’s FtPP Code states: <i>“The Council will maintain a Central Register of all funding approved that meets the criteria set. The Register will be managed and maintained by the Finance Team, located at Marischal College, and updates will be provided directly from the Budget Holder as funding is awarded. The Register is a key data source and as such the information and timing of such being supplied is crucial to the robustness of the information that is contained therein....To record an entry in the Register the Funding Agreement should be sent to the Finance Team immediately after the award has been made”.</i></p> <p>A view has been reached from stakeholders that updating the central register is cumbersome since Finance must update the register on behalf of services based on a copy of the Funding Agreement. Whilst it is beneficial that Finance are made aware of established Funding Agreements, as evidence of compliance with FtPP requirements in relation to these agreements, this process has the potential to reduce reporting where Funding Agreements have not been established. Furthermore, the central register does not capture key checks required by the Council’s FtPP Code. Covering key FtPP checks in the central register and requiring awarding services to update the register (in addition to submitting Funding Agreements to Finance once prepared) would help ensure FtPP checks are documented by the respective service and reduce the administrative burden on Finance.</p> <p>To test the completeness of the central register and establish a sample for testing compliance with the Council’s FtPP requirements, Internal Audit ran an extract from the general ledger for 2022/23 for all transactions that included ‘grant’¹ in the description. Three such grants were not recorded in the central register, one of which was a single payment for £1m</p> <p>Whilst Finance is undertaking quarterly audits of the central register, where a sample of seven to eight grants is selected by Finance from the register and the documentation to support the required FtPP process is requested from the respective service, Finance advised that a reconciliation is not undertaken of the central register to the general ledger and furthermore such a reconciliation is hindered by the large number of undefined financial codes used to make grant payments. This increases the risk the register will be incomplete and that grant payments will be made without the Council’s FtPP Code being adhered to.</p> <p>When seeking financial ledger reports of grant payments made it was noted there were limited officers deemed to have the knowledge necessary to adequately interrogate the financial ledger using the BOXI system. Presently there is no online course available on the use of BOXI. It would be beneficial for officers who wish to interrogate the financial ledger if such a course were developed.</p>		
IA Recommended Mitigating Actions			

¹ Where this is not a fully comprehensive test given other naming possibilities it allowed for an analysis of completeness from a relative assurance perspective to be carried out.

<p>The ownership of the central register updates and the content should be reviewed, with consideration given to requiring budget holders to update the register, and for the register to capture FtPP requirements, to act as a checklist for officers awarding grants.</p> <p>Financial codes used to make grant payments should be standardised to facilitate review of grant payments.</p> <p>Finance should reconcile the central register to the general ledger regularly to ensure the central register is complete and Functions awarding grants should be required to do the same.</p> <p>A training course on BOXI functionality should be made available to all officers involved in financial reporting and monitoring.</p>		
Management Actions to Address Issues/Risks		
<p><i>Agree we will action the recommendations in relation to the Register ownership, the financial codes and reconciliation, however due to resources available this will take some time to complete. In relation to the BOXI training recommendation we will be considering alternatives to extract and interrogate the financial systems, I would not propose to develop a training course unless there is a long term commitment to using BOXI.</i></p>		
Risk Agreed	Person(s)	Due Date
Yes	Finance Operations Manager	December 2023

Ref	Description	Risk Rating	Moderate
1.7	<p>Funding Agreements – The Council's FtPP Code states:</p> <p><i>'All organisations covered by this procedure must have a Funding Agreement. In accordance with the procedures a Service Level Agreement is required for funding that is in excess of £300,000 and a letter of agreement setting out the conditions of the funding is required for funding below £300,000'.</i></p> <p>Funding Agreements were absent for two (20%) grants reviewed increasing the risk organisations will not be held accountable for use of Council funds; funding will not be spent in line with Council priorities, Best Value will not be achieved, and the Council will suffer reputational damage as a result.</p> <p>One of the grants was a recurring Common Good grant for £337k. Finance advised funding agreements are not established for such recurring grants – this was the same tier 2 grant thought to be out of scope by Finance due to the longstanding relationship between the Council and the organisation; a recommendation has already been made at 1.1 to review the Code. The relevant Function was unable to provide an agreement for one other grant reviewed (and £80k grant).</p>		
IA Recommended Mitigating Actions			
<p>a) Functions should ensure Funding Agreements are established prior to grant payments are made.</p> <p>b) Finance should ensure that no grant payments are made until Funding agreements are in place and signed by external organisation and the Budget Holder as evidenced by the central register update process.</p>			
Management Actions to Address Issues/Risks			
<p><i>Agreed, (a) the Chief Officer – Finance will remind all Functions of their requirements under the FPP Code of Practice to ensure that funding agreements in line with FPP Code of Practice are in place and records kept prior to payment being made. (b) The finance team</i></p>			

<i>will investigate what options could be put in place to prevent payment of grants prior to funding agreements being signed, and report this to the Chief Officer – Finance to determine next steps.</i>		
Risk Agreed	Person(s)	Due Date
Yes	a) Chief Officer – Finance b) Finance Operations Manager	(a) March 2023 (b) March 2023

Ref	Description	Risk Rating	Major
1.8	<p>Payments – The following was reviewed to ensure payments were being made in line with the FtPP Code:</p> <ul style="list-style-type: none"> • A checklist was completed by the Budget Holder documenting all FtPP checks had taken place as required prior to payment. • The Council verified if the grant recipient had any sundry debts, council tax or NDR owed to the Council prior to payment. • A payment schedule was agreed with the grant recipient. • Payments of £15k per annum were made in a minimum of four instalments <p>As part of testing, it was identified that:</p> <ul style="list-style-type: none"> • FtPP checklists were absent for seven grants (70%) • The payment schedule is part of the funding agreement and funding agreements were absent for two (20%) organisations as described in section 1.7 above. A recommendation has already been made at 1.7 to ensure funding agreements are established. • There was no evidence of debt checks prior to payment for any of the grants reviewed (100%), increasing the risk debts will not be settled following award of grants, where debts are not deducted from grant payments or of payment to organisations who are not financial sustainable. • Two large payments (£1m and £158k) were made as single payments increasing the risk of greater financial loss to the Council at the time the payments were made should the funded organisations cease to operate. Whilst the £1m payment was compliant with the Council's FtPP Code payment scheduling requirements since it was one of six payments making up of a larger grant award of £6.1m, the risk could have been reduced via monthly payments which are only recommended by the Council's FtPP Code – a recommendation has already been made to formalise grant payment frequency requirements at 1.1 above. 		
IA Recommended Mitigating Actions			
<p>Finance should require functions to complete FtPP Checklists prior to making grant payments and to upload these centrally to facilitate monitoring of FtPP compliance.</p> <p>Functions should retain evidence of debt checks conducted.</p> <p>Functions should schedule grant payments in excess of £15k per annum in line with the Council's FtPP Code.</p> <p>Finance should explore the legitimacy of establishing an automated system of control to prevent single grant payments from exceeding the maximum recommended value for a single grant payment according to the Council's FtPP Code.</p>			
Management Actions to Address Issues/Risks			
<p><i>Agreed, (a, b & c) the Chief Officer – Finance will remind all Functions of their requirements under the FPP Code of Practice to ensure that FPP Checklists, Debt Checks and Grant Payment schedules are carried out in line with FPP Code of Practice and records kept prior</i></p>			

<i>to payment being made. (d) The finance team will investigate what options could be put in place to prevent payment of grants prior to funding agreements being signed, and report this to the Chief Officer – Finance to determine next steps.</i>		
Risk Agreed	Person(s)	Due Date
Yes	(a, b, c) Chief Officer – Finance (d) Finance Operations Manager	March 2023

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

Councils fund arms-length and external organisations (ALEOs) to provide important services to the public, or to provide social benefits such as employment opportunities. These funding arrangements are often more complex than purchase contracts for goods or services. To ensure that public money is used properly and achieves Best Value, it must be possible to trace funds from the Council to where they are ultimately spent – to ‘Follow the Public Pound’ (FtPP) across organisational boundaries.

FtPP means ensuring that there is proper accountability of public funds used in delivering services, irrespective of the means of service delivery.

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”, providing statutory backing and requiring all Scottish Local Authorities to comply with the 1996 Code. Given this statutory requirement, it is imperative that all operations within the Council comply with the Code when dealing with external organisations that receive grants from public funds.

The Council compiled a Local Code of Practice for Funding External Bodies and ‘Following the Public Pound’, which was approved by the City Growth & Recourses Committee on 26 September 2019.

5.2 Rationale for review

The objective of this audit is to ensure that there is proper accountability for public funds used in delivering services, irrespective of the means of service delivery. Due to risk of reputational damage to the Council where statutory obligations are not met and that public funds are misused, wasted, or lost; this review has been included in 2022/23 audit plan.

5.3 Scope and risk level of review

This review will offer the following judgements:

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

Please see Appendix 1 – Assurance Terms and Rating Scales for details of our risk level and net risk rating definitions.

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 the IAD, within the resulting report.

The specific areas to be covered by this review are:

- Written Procedures and Policies
- New Applications
- Risk Assessments
- Financial Checks
- Funding Agreements
- Approval, Monitoring and Reporting Process
- Payments
- Termination

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 the ongoing impacts of COVID-19, this review will be undertaken remotely. We remain flexible in the face of the rapidly changing risk environment. Where our resourcing or access to the client is impacted further by COVID-19, we will adapt our audit methodology to balance the risks and assurance output and will work in co-operation with key contacts to understand the impact of the situation as it evolves.

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 IAD staff assigned to this review are:

- Agne McDonald (**audit lead**)
- Andrew Johnston, 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:

- Steven Whyte, Director of Resources
- Rob Polkinghorne, Chief Operating Officer (**process owner**)
- Jonathan Belford, Chief Officer – Finance
- Vikki Cuthbert, Chief Officer – Governance
- Lesley Fullerton, Finance Operations Manager

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	20/07/2022
Scope agreed	27/07/2022
Fieldwork commences	01/08/2022
Fieldwork completed	16/09/2022 ²
Draft report issued	7/10/2022

² The Auditor is on leave from 8 August until 27 August. The intention is to have the initial work of the review completed the first work of August and conclude the fieldwork at the start of September. We do not envisage the need or plan for fieldwork to last six weeks. Actual schedules for work will be agreed with the process owner at the start of the review.

Milestone	Planned date
Process owner response	28/10/2022
Director response	04/11/2022
Final report issued	11/11/2022