

Report to Audit Committee

Meeting Date: 24 September 2021
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and
Budget Framework YES
Public / Private Public

Title: Internal Audit Report – Third Sector Grant Funding (VFM)
Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number: RD41/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the value for money review of Third Sector Grant Funding.

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Audit Committee:	24 September 2021
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 A value for money audit of Third Sector Grant Funding was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (**Appendix A**) provides reasonable assurances and includes 1 high graded and 6 medium-graded recommendations.

2. RISKS

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. CONSULTATION

- 3.1 Not applicable

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

- i) receive the final audit report as outlined in paragraph 1.1;

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

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Appendixes

**Internal Audit Report – Third
Sector Grant Funding – Appendix
A**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

Third Sector Grant Funding (VFM)

Draft Report Issued: 23rd June 2021
Director Draft Issued: 25th July 2021
Final Report Issued: 26th July 2021



Audit Report Distribution

Client Lead:	Healthy City Team Manager Communities and Contracts Officer
Chief Officer:	Chief Executive Deputy Chief Executive
Others:	Health and Wellbeing Manager
Audit Committee:	The Audit Committee, which is due to be held on 24 th September 2021 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Third Sector Grant Funding (VFM) This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.
- 1.2 The Health City Team provides annual funding for the following third sector organisations: Cumbria Law Centre, Cumbria Council for Voluntary Services and Citizens Advice Carlisle & Eden. Third sector organisations are independent of government, value driven (that is in pursuit of social, environmental or cultural objectives rather than primarily aiming to make a profit) and they reinvest any surpluses in the pursuit of their objectives. Historical documented agreements were in place with these organisations in 2017/18, detailing the required outputs and outcomes in exchange for the annual funding. The Authority's Financial Procedures detail that all members of staff have a general responsibility for ensuring that the use of resources provides value for money and achieves best value.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was the Healthy City Team Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Interim arrangements have not been developed to demonstrate value for money
 - Relevant and balanced performance indicators are not regularly reviewed
 - Appropriate, documented arrangements are not in place to verify delivery of key outcomes
 - Services delivered by grant recipients are not aligned to Council objectives
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Small Business Grants (VFM) provide **reasonable assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	1
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	1
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.4)	-	2
Total Number of Recommendations	1	6

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.3 Findings Summary (good practice / areas for improvement):

Management have determined and documented key objectives for the funding of third sector organisations in the 2021-22 Healthy City Team Service Plan.

A significant amount of research has been undertaken on the outputs and outcomes of third sector organisations in the last six months. Seeking documented advice on legislative and regulative requirements will complete the required research.

Capturing learning in service guidance will clarify processes and procedures for staff to follow and set standards to be maintained.

Reinstatement of annual agreements with third sector organisations will clarify the outputs and outcomes (best value) to be achieved.

Regular monitoring of those outputs and outcomes and the recording of key discussions, will further increase focus on achievement of best value.

Proportionate annual financial checks will determine if third sector organisations continue to operate as a going concern.

Current Healthy City Team management acknowledge that past service standards for third sector grant funding have not been consistently maintained. There is a single high-level recommendation to review and implement robust continuation of service arrangements, helping to ensure a consistently high standard of grant funding management moving forward.

Comment from the Deputy Chief Executive:

It is encouraging that the arrangements now in place for monitoring and developing relationships with these third sector organisations appears to be working well. The recommendations outlined in this report will prove valuable to officers as more robust and progressive arrangements are implemented.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** The Health City Team service plan 2021-22 details specific objectives to review grant making best practice and the impact of third sector funding. A Communities and Contracts Officer was appointed in November 2020, and significant research has been undertaken since to establish how future third sector organisational outcomes and outputs will add best value to the authority.
- 5.1.2** Documented agreements were in place with the three third sector organisations in 2017/18. The agreements detailed the outcomes and outputs required in exchange for regular annual funding, although they were not renewed in April 2018. Subsequently, management encountered staffing difficulties for the administration of third sector funding, and there is limited documentation to demonstrate robust historical monitoring. Evidence of third sector outputs and outcomes were requested from third sector organisations in February 2020, then subsequently waived for the financial year following the first COVID lockdown in March 2020.
- 5.1.3** Current management acknowledge that renewal of the third sector agreements in April 2018 would have been best practice. It is recommended management carry out a review of the circumstances that led to the reduced level of monitoring and implement robust continuation of service arrangements. This will help to ensure that future best value of third sector organisations is consistently maintained.

Recommendation 1 – Review business continuity arrangements for management of third sector funding.

- 5.1.4** Management have sought advice and guidance on the legislative and regulative requirements that the Authority should follow when funding third sector organisations, although the advice was not documented and retained.
- Documented advice and guidance from professional internal sources and other similar high performing authorities will inform the type and nature of the agreements required, assist in the development of service guidance, and act as a benchmark for performance measurement.

Recommendation 2 – Seek documented advice on legislative and regulative requirements.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1** There is a danger that in the absence of annual agreements, third sector organisations will perceive that the Authority has accepted a lower performance expectation. It is recommended that annual agreements are reinstated, detailing the outputs and outcomes (best value) to be demonstrated in exchange for regular annual funding. The type and nature of the agreement (contract, SLA) will be determined following the advice received (rec 2).

Recommendation 3 – Reinstate annual agreements with third sector organisations.

- 5.2.2** A significant amount of research has been undertaken in the last six months on third sector funding best practice; the Healthy City Team Service plan 2021-22 details that the best practice review will be concluded in October 2021. Following the review, service guidance, commensurate with the size and nature of third sector funding, should be documented.

Recommendation 4 – Document service guidance for third sector funding.

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** Periodic meetings have been held with the Chief Executive Officers of the third sector organisations in scope as part of the current research undertaken. It is recommended that key discussions and decisions made during future meetings are recorded and retained for reference.

Recommendation 5 – Key discussions and decisions to be recorded and retained.

5.4 Value – effectiveness and efficiency of operations and programmes

- 5.4.1** Expected outputs and outcomes of third sector organisations are currently being determined following the recent research undertaken. Achievement of those outputs and outcomes should then be subject to regular monitoring and review, allowing management to take informed decisions on performance and determine if further funding is recommended.

Recommendation 6 – Regular monitoring of third sector organisation performance.

5.4.2 Financial checks are not currently undertaken on third sector organisations prior to releasing grant funding payments. Suitable and proportionate annual financial checks should be undertaken to give reasonable assurance that each third sector organisation is a going concern, and not likely to default on their commitments.

Recommendation 7 - Suitable and proportionate annual financial checks to be undertaken.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Review business continuity arrangements for management of third sector funding.	H	Third sector organisations do not achieve best value for the Authority.	Business continuity arrangements to be reviewed and documented so that Communities and Contracts Officer role can be re-allocated to trained staff at short notice	Healthy City Team Manager	30/09/2021
Recommendation 2 – Seek documented advice on legislative and regulative requirements.	M	Third sector funding not managed to the required standard.	Legal advice sought to be documented in service guidance	Healthy City Team Manager	30/11/2021
Recommendation 3 – Reinstate annual agreements with third sector organisations.	M	Third sector organisations unclear on the best value standards to be achieved.	New grant funding agreements being drafted by Legal to be signed by all third sector organisations	Healthy City Team Manager	30/09/2021
Recommendation 4 – Document service guidance for third sector funding.	M	Lack of management guidance to staff on third sector funding arrangements.	Procedure to be drafted to provide best practice guidance	Healthy City Team Manager	30/11/2021
Recommendation 5 – Key discussions and decisions to be recorded and retained.	M	Reasons why decisions taken lack transparency.	All meetings with funded organisations to be recorded and retained.	Healthy City Team Manager	09/07/2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 6 – Regular monitoring of third sector organisation performance.	M	Third sector organisation does not meet the required performance standards and management unaware.	Performance of grant agreements to be monitored on a quarterly basis.	Healthy City Team Manager	09/07/2021
Recommendation 7 - Suitable and proportionate annual financial checks to be undertaken.	M	Organisation becomes insolvent following Authority funding.	Finance team to undertake proportionate check before issuing of grant agreements.	Healthy City Team Manager	30/10/2021

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).