

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 – Community Services
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 directorate review of Community Centres.

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 An audit of Community Centres 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 2 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 – Community Services – 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

Audit of Community Centres

Draft Report Issued: 22nd July 2021
Director Draft Issued: 7th September 2021
Final Report Issued: 10th September 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 Property Services 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 Community Centres. This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th June 2020.
- 1.2 Carlisle City Council supports Community Centres through Grant Funding as part of a wider support packaged for Third Sector organisations. The Community Centres function as independent charities, each with their own Board of Trustees responsible for the operation of their Centre and for the responding to the needs of their local communities. These Community Centres are an integral part of delivering Health and wellbeing improvements to communities across the Carlisle district.

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 scope areas:
 - Risk of inappropriate and inconsistent Governance arrangements across the Community Centres, which do not provide adequate assurances that the management of each of the Community Centres is robust and managed appropriately.
 - That the Council does not get the necessary assurances on Value for Money on the use of the Community Centres and exposes the City Council to reputational risks.
 - Unclear funding arrangements based upon historic allocations which are not clearly aligned to performance indicators or the long-term financial stability of the individual Community Centres.
 - Risk of Council Assets not being utilised and managed in an appropriate manner as set out in the SLA and funding arrangements
- 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 Community Centres 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	2
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	1	-
3. Information - reliability and integrity of financial and operational information (see section 5.3)		2
4. Security - safeguarding of assets (see section 5.4)	-	1
5. Value – effectiveness and efficiency of operations and programmes (see section 5.5)	-	1
Total Number of Recommendations	2	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 are committed to undertaking an update of monitoring and appropriate reporting arrangements, as is deemed necessary for the Community Centres and they recognise that the previous reporting regime and records management both required significant improvements.

The landscape for funding allocations and management of Community Centres is changing and the needs and appropriate funding mechanisms should be reviewed considering the current best practice across Local Government bodies.

By working with the appropriate professional internal experts, the correct legislative and regulative requirements can be outlined to make sure that robust agreements are put into place for improved relationships and management of Community Centres.

Management are encouraged to work with both Trustees and Community Centre Managers to provide necessary training to ensure that good Governance arrangements are in place at all the Community Centres.

Working with Third Sector organisations can be challenging; however, with the proposed risk management regime being introduced, this will ensure that The Authority can determine and monitor the high-level issues that Community Centres and Trustees are experiencing.

Comment from the Deputy Chief Executive:

This internal audit report has provided officers with a helpful set of recommendations that will improve the Council's governance and funding arrangements with community centres. We will implement and monitor the outcomes of the recommendations identified in the report.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** The Healthy City Team service plan 2021-22 clearly sets out the specific objectives to improve community prosperity and access to community grounds across Carlisle. A Communities and Contracts Officer was appointed in November 2020 and their role is targeted at working with Community Centres to delivery these objectives.
- 5.1.2** Documented agreements were in place with each of the Community Centres in 2017/18 that stipulated copies of business plans and annual accounts were submitted to Carlisle City Council; however, these agreements have not been renewed since 2018. The subsequent vacation of posts key to this monitoring role has resulted in difficulties for the administration of Community Centre Grants, with limited documentation to demonstrate robust historic monitoring. This was further compounded by the waiving of provision of information for the 2020/21 financial year following the first COVID lockdown in March 2020.
- 5.1.3** Interim arrangements have been put into place to continue with the historic grant funding arrangements, but management acknowledge that these are not adequate for providing relevant performance measures for the Community Centre Funding that is provided by Carlisle City Council and need to be reviewed as a matter of urgency. As well as financial grant funding support, insurance of the Community Centre premises and maintenance of the buildings, Carlisle City Council also provides various in-kind support and has in the past also helped with Training and development of skill sets for Community Centre Managers and Trustees.
- 5.1.4** As a result of widespread cuts to local council budgets, direct grant funding for Community Centres has seen various reviews to deliver necessary savings. A number of other Local Authorities are now working on different models to provide Community support. A joint report by NAVCA [National Association for Voluntary and Community Action] and NVCO [The National Council for Voluntary Organisations] was published, which outlines how most areas in England have signed up to a local Compact to deliver innovative and creative measures across Community organisations.
- 5.1.5** Carlisle City Council is currently one of the few remaining English Local Authorities, who continue to directly fund Community Centres via Grant Funding allocations.

Recommendation 1 – Review the existing funding arrangements and determine the most appropriate mechanism to provide funding support to the existing Community Centres based on Best Practice across Local Government Authorities

5.1.6 Each of the eleven [11] Community Centres are run as Charitable Trusts in their own right and fall within the remit of funding and management of third sector organisations, with these appointments the roles and responsibilities for each Community Centre Trustee needs to be communicated to all new appointees. Currently 23 elected members of Carlisle City Council sit on various Charitable Boards associated with Community Centres and all these Trustees acknowledge and complete declaration of interests when requested. Additional training will help to demonstrate how The Authority sees the importance and understands the need to work with and “skill-up” the sector by offering valuable in-kind support.

Recommendation 2 – To develop a training program to provide updated Trustee training for elected members and appointees who have roles on the various Charitable Trust Boards

5.1.7 Management have sought advice and guidance on the legislative and regulative requirements that the Authority should follow when funding Community Centres within the third sector, however due to the change in staffing this advice has not been documented and retained.

5.1.8 Documented advice and guidance from professional internal sources (such as Legal Services and Finance) and other similar best practice performing Authorities will help to inform the type and nature of the most suitable agreements required. This valuable professional advice will assist in the development of service guidance and act as a benchmark for performance measures for the Community Centres.

Recommendation 3 – To seek documented internal professional advice on legislative and regulative requirements to establish the most suitable agreements for the management of these Community Centres

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

5.2.1 As has been explained in a previous section, it is necessary that annual agreements are reviewed and are valid and appropriate for the funding mechanisms that are in place between The City Council and Community Centres. A risk exists that the absence of these agreements could be perceived that the Authority has lower performance expectations from the third sector organisations. The type and nature of the funding agreements will be determined following the review and advice recommended above (in Rec 1 & Rec 3.)

Recommendation 4 – Reinstate Annual Agreements with Community Centres

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** Ad-hoc meetings have been held with Community Centre Managers and in the past some joint meetings have been held for Group Community Centre information sharing sessions which have helped to highlight best practice and good opportunity to learn what offerings other Community Centres have adopted.
- 5.3.2** With the appointment of the new Communities and Contracts Officer now in post and also an independent Community Lottery Funding post, of Community Centre Development Manager, hosted by Carlisle & District Federation of Community Organisations [C&DFCO] more information sharing and meetings should be encouraged to further develop these relationships and where appropriate to increase efficiency and reduce duplication in the various local Third Sector organisations.
- 5.3.3** Historic funding allocations have been in place for the Grant funding of the Community Centres, which were determined in 2000 on initial “payroll costs” and have never subsequently had a zero-based budget approach applied.
- 5.3.4** In previous budget setting cycles, various efficiency savings were identified and have been delivered across most of the Community Centres. The Authority will need to find ways to ensure that the intelligent monitoring is adopted with Community Centres and this may involve more collaborative budgeting to ensure financial sustainability of the Community Centres as registered Charities in the Third Sector.

Recommendation 5 – Develop Intelligent Monitoring with all Community Centres Managers and Trustees that help to enhance the financial sustainability of each of the Community Centres

- 5.3.5** Operationally each of the Community Centres are required to manage their own independent risk registers and contingency plans as independent registered charities. During the audit evidence of these risk registers or contingency plans were not available for inspection.
- 5.3.6** In the future it would be good practice for each of the Community Centres to send their top 3 Operational Risks to The Authority on a regular (quarterly) reporting cycle to ensure that common risks and operational issues are being addressed and monitored by The Authority.
- 5.3.7** However, it is worth noting that the response and adaptation required by the local Communities has been well managed by the Community Centres during the 2020 Covid

Pandemic and was reported to Health and Wellbeing Scrutiny Panel in February 2021 for recognition of the efforts and support that was available.

Recommendation 6 – To Introduce a High Level Operational Quarterly Risk Register update and monitoring review across Community Centres

5.4 Security – Safeguarding of Assets

5.4.1 The majority of Community Centre buildings are owned by the authority.

5.4.2 Currently lease agreements are in place, but some of these are historic and are due for renewal. A selection of the leases were inspected as part of the audit, but a further review is planned to be carried out on the management of these Council owned assets. The maintenance of these Community Centres is also the responsibility of the authority.

5.4.3 Detailed Condition survey reports were last carried out in 2017 and copies of these were inspected as part of the audit, the next condition report review on Council Property will be commissioned later in 2021. The Property maintenance is carried out and managed internally by The Authority and each job is allocated a Revenue Job card. In a few instances, some clarification was required on whether jobs were detailed repairs and maintenance or actual improvements to the buildings. This is an area that should be explored further when the Asset Management Audit is carried out and some possible agreement reached for the updated Lease agreements.

Recommendation 7 – To ensure that updated lease agreements are put into place with appropriate maintenance and improvement criteria clauses incorporated.

5.5 Value – effectiveness and efficiency of operations and programmes

5.5.1 The Community Centres are directly aligned to Carlisle Plan Priorities:

- “Continue to improve the quality of our local environment and green spaces so that everyone can enjoy living, working in and visiting Carlisle.”
- “Further develop sports, arts and cultural facilities to support the health and wellbeing of our residents.”

5.5.2 To monitor and report upon these key Council Plan priorities, it is imperative that reliable and robust performance indicators are monitored and reported upon on a regular and timely basis.

5.5.3 The expected outcomes & measures from these Community Centres need to be determined by The Authority. These performance indicators should then be shared with Community Centre Managers who can ensure that the outcomes are monitored and reported upon accordingly.

Recommendation 8 – To develop appropriate performance indicators for Community Centres with outcomes and monitoring reviews communicated

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 - Review the existing funding arrangements and determine the most appropriate mechanism to provide funding support to the existing Community Centres based on Best Practice across Local Government Authorities.	M	Risk of inappropriate and inconsistent Governance arrangements across the Community Centres	Review current funding arrangements against best practice from across Local Government Authorities. Recommend and implement funding arrangement dependant upon outcome of review.	Healthy City Team Manager	31/12/2021
Recommendation 2 - To develop a training program to provide updated Trustee training for elected members and appointees who have roles on the various Charitable Trust Boards	M	Risk of inappropriate and inconsistent Governance arrangements across the Community Centres	Contact APSE to arrange Trustee training for elected members and appointees who have roles on Charitable Trust Boards.	Healthy City Team Manager	30/12/2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 3 - To seek documented internal professional advice on legislative and regulative requirements to establish the most robust agreements for the management of these Community Centres	H	Unclear funding arrangements, and reputational risk to The Authority	Contact legal service for documented advice on the legislative and regulative requirements of Community Centre funding agreements for 2022/23 financial year.	Healthy City Team Manager	30/1/2022
Recommendation 4 – Reinstate Annual Agreements with Community Centres	H	Unclear funding arrangements, and reputational risk to The Authority	Reinstate annual agreements.	Healthy City Team Manager	01/04/2022
Recommendation 5 - Develop Intelligent Monitoring with all Community Centres Managers and Trustees that help to enhance the financial sustainability of each of the Community Centres	M	Unclear funding arrangements, and reputational risk to The Authority	Request centres to detail their status against their reserves policy and report against this. Implement appropriate financial health checks by finance team as condition of grant agreement.	Healthy City Team Manager	01/04/2022

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 6 – To Introduce a High Level Operational Quarterly Risk Register update and monitoring review	M	Risk of inappropriate and inconsistent Governance arrangements across the Community Centres Reputational Risk to The Authority	Introduce a high level operational quarterly risk register.	Healthy City Team Manager	30/12/2021
Recommendation 7 – To ensure that updated lease agreements are put into place with appropriate maintenance and improvement criteria clauses incorporated.	M	Risk of Council Assets not being utilised and managed in an appropriate manner as set out in the SLA and funding arrangements	Work with the property team to ensure that update lease agreements are in place. Implement monitoring of lease to under lease expiry dates.	Property Services Manager	01/04/2022
Recommendation 8 – To develop appropriate performance indicators for Community Centres with outcomes and monitoring reviews communicated	M	Third sector organisations do not achieve best value for The Authority	Review outcomes and monitoring reviews and implement appropriate measures that are in line with the service plan. Explore viability of aligning outcome monitoring to social determinates and health inequalities.	Healthy City Team Manager	01/04/2022

Appendix B - 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 C

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).