ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Support to Third Sector Organisations via grant distribution
AUDIT DATE	FEBRUARY 2017

2016/2017

1. BACKGROUND

A review of Support to Third Sector Organisations via grant distributions has been planned as part of the 2016/17 Internal Audit programme.

The Third Sector has a direct impact on the growth of Argyll and Bute's economy, the wellbeing of its citizens and the improvement of its public services. The Third Sector comprises of community groups, voluntary organisations, charities, social enterprises, co-operatives and individual volunteers and has an important role in helping Argyll and Bute Council achieve its purpose of creating a more successful area with opportunities for all to flourish, through achieving sustainable economic growth.

At a local level the relationship between the Council and the Third Sector is extremely important given the role of the Third Sector in Community Planning.

At the Policy and Resources Committee of 15th December 2016 a number of changes were agreed in relation to the process of grant allocation including; opening the scoring of grant applications to a panel of Community members overseen by the Community Development Officer with recommendation to Area Committees and extending the criteria to grant funding to allow Community Councils and Parent Councils to apply. The audit will focus on grant applications made prior to the introduction of the new processes.

Monies available to be distributed to Third Sector Organisations during 2016/17 is £126k which is split equally between the 4 areas. This is planned to be reduced to £112k in 2017/18 and £98k in 2018/19 as part of Service Choices.

2. AUDIT SCOPE AND OBJECTIVES

- Review policies and procedures
- Review a sample of Third Sector grant payments and carry out a walk through test to assess adequacy of controls, including review of reporting arrangements and any post evaluation activity.

Controls included:

Authority –	Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
Occurrence –	Sufficient documentation exists to evidence compliance with policies, procedures
Completeness –	Policies and procedures are aligned and all required documentation is accurately and fully maintained
Measurement –	Policies and procedures are in line with requirements of agreed policies
Timeliness –	Policies and procedures are regularly reviewed and updated as necessary
Regularity –	Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff

3. RISKS CONSIDERED

- No corporate policy in place for funding of Third Sector Organisations
- Reputational damage to the Council
- Insufficient support given by Council to Third Sector Organisations
- Insufficient controls in place for grant awards
- Purpose of grant funding is not achieved

4. AUDIT OPINION

The level of assurance given for this report is Substantial

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of

	residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

6Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

<u>Review policies and procedures</u>

- There was no evidence of a formal policy and procedures document.

- Grant applications are currently considered on a twice yearly basis in April and August by each of the 4 Area Committees. A review of Area Committee papers evidenced this and highlighted that an upper award limit of £4,000 to any one organisation in any one financial period (unless exceptional circumstances shown) has been agreed. All grants reviewed were within limits and appropriately authorised and agreed.

- It was evidenced that a Grant Application pack is in place which acts as a template for all grant applications from Third Sector Organisations. The template details all of the information and documentation which must be submitted by all applicants before any application will be considered. A review of the Grant Application pack found it to be adequate and included the following areas;

    o Date application must be submitted for decision at specific Area Committee

    o Council contact details for specific area

    o Amount of maximum grant award available

    o Financial documentation to be included within application

    o 13 points outlining the various criteria necessary for grant award

    o Guidance in relation to priority areas in terms of Community benefit

    o Documentation checklist

    o Grant Application form to be filled in by the organisation

<u>Assessment Process</u>

- A scoring matrix is in place to assess the eligibility of each grant application. Criteria includes community impact, sustainability and finance. The scoring matrix was found to be adequate however it was noted that there is inconsistent application of scores across area's in respect of conversion to award value, for example;

Area	Score from matrix	First time Applicant	Repeat Applicant
H&L	6 or above	Full funding minus £200	Minimal reduction on requested amount or amount matching previous award where no additional developmental aspects have been identified.
MAKI	6 or above	Full funding unless reaching £4k max	80% unless reaching £4k max
OLI	6 or above	Full amount	Full amount
B&C	6 or above	No policy evident	No policy evident

- Documentation reviewed included a grant assessment form which is completed by the relevant departmental development officer. The grant assessment form covers the following criteria;

  - Whether Single Outcome Agreement (SOA)/Local Outcome Improvement Plan (LOIP) criteria is being addressed by the project.

  - Financial requirements have been addressed with relevant documentation forwarded

- o A number of general criteria (for example; is the project consistent with Council objectives and how many people will benefit from the grant, etc.)

- o Applicant has prescribed policy and procedures in place, e.g. clear recruitment policy, equal opportunities policy

- The link between the scoring matrix and grant assessment form is not clear in respect as to how it influences decision award.

Review a sample of Third Party grant payments and carry out a walk through test to assess adequacy of controls, including review of reporting arrangements and any post evaluation activity.

- A sample of 5 grant applications from each of the 4 Area Committees was selected at random and walk through testing was carried out in order to verify that current policy and procedures have been adhered to. The review found that whilst grants applications had generally been adequately assessed and grants awarded there was a number of weaknesses in regard to completion of documentation and authority. A summary of the results are shown below:

Test area	Comments
Grant Applications available for review and adequately completed	• All 20 applications available for review and complete
Scoring Matrix	• Scoring Matrix completed for all applications • No evidence of who carried out the scoring
Assessment document	• Audit trail incomplete as a number of sections have been omitted or partly completed
Financial Checks	• No evidence of check carried out on grants less than £2,000
Grant payments	• Values agreed in 18 of 20 payments made. Insufficient documentation to support variations in respect of the 2 remaining payments. (Variation to award is £500 and £2,300) • All payments had been made timeously and authorised appropriately

<u>Reporting arrangements</u>

- Applications had been considered by the relevant Area Committee and included the undernoted.

  o Previous grant awards if applicable for application

  o Total project cost

  o Amount requested

  o Amount recommended

  o Rationale for grant application

<u>End of Project Monitoring</u>

- Area Committees undertake an annual review on whether the grant awarded has achieved the outcomes specified in the original application. It was evidenced, where projects were completed, that an End of Project Monitoring report had been submitted (6) and arrangements are in place to ensure that once the remaining projects are complete an End of Project Monitoring report will be submitted on a timely basis.

6. CONCLUSION

This audit has provided a Substantial level of assurance. Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There was 1 action which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1   **ACTION PLAN**

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedural Document		**High/ Medium or Low**		
There was no evidence of a formal policy and procedures document.	Failure to document formal policy and procedures lead to inconsistent practice and potential risk of error resulting in potential loss or error	Medium	**Policy and procedure document to be completed.**	**Community Planning and Community Development** **31 December 2017**

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