

Argyll and Bute Council
Internal Audit Report
October 2019
FINAL

Following the Public Pound

Audit Opinion: Reasonable

	High	Medium	Low
Number of Findings	1	2	1

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Following the Public Pound (FtPP).
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. 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 value for money, it must be possible to trace funds from the Council to where they are ultimately spent – to 'follow the public pound' across organisational boundaries.
5. Councils are ultimately accountable for how they spend public money, including the services they commission through external organisations. This means having clear oversight and appropriate governance arrangements in place. The Code of Guidance on Funding External Bodies and Following the Public Pound (the Code) sets out the principles for how councils should do this. In particular it highlights that the principles of openness, integrity and accountability which apply to councils in their decisions on spending public money, apply equally to funds or other resources which are transferred by councils to arms-length bodies. The Code seeks to ensure clarity over:
 - Purpose – the reasons for the Council's involvement in any arms-length funding arrangement
 - Financial regime – the extent of the financial commitment and the nature of the relationship
 - Monitoring – financial and performance monitoring and reporting arrangements
 - Representation – how their interests are represented in arms-length bodies
 - Limitations – limitations in any funding relationship and an 'exit' strategy
 - Accountability – how the Council and its external auditors may access the ALEOs' records.
6. The Code was published jointly by the Accounts Commission and the Convention of Scottish Local Authorities in 1996. In 2005, the Code was given statutory backing in the form of a Ministerial Direction under the Local Government (Scotland) Act 2003 which required every local

authority to comply with the Code when entering into any arrangement or agreement with a body corporate or implementing such an arrangement.

Scope

7. The purpose of the audit was to assess the Council's compliance with the principles of FtPP. The audit focused on payments of grants to external organisations and service level agreements as outlined in the Terms of Reference agreed with the Head of Financial Services.
8. As the purpose of the audit was to assess the Council's compliance with the principles of FtPP, this report, and the recommendations within it, represent areas for improvement that are Council wide. They are not improvements specifically for the agreements tested as part of this review.
9. A sample of nine agreements were selected from the Service Level Agreement (SLA) register maintained by the Procurement and Commissioning team. The sample selected is set out in exhibit 1.

Exhibit 1 – Agreements tested

Name of Provider/Organisation	Description/Purpose	Annual Value
Live Argyll	Live Argyll overarching SLA	£3,692,545
Oban & Lorn Community Enterprise Ltd (OLCE)	Contribution to the running costs of Atlantis Leisure Centre (Pool)	£420,641
British Red Cross	Provision of door-to-door demand responsive community transport services	£35,000
Homestart Lorn	Early Years Grant	£20,000
Fèisean nan Gaidheal	Gaelic support to Feis including the part funding of these and community development support to these across Argyll and Bute.	£20,000
Kilmartin Museum	To provide museum archaeological advice and services for Mid Argyll & Kintyre	£16,000
Kilmartin Museum	Run Kilmartin Museum and provide storage of Campbeltown Museum Archaeology	£14,000
Colonsay Community Development Company	Contribution to provision of a Customer Service Point on Colonsay	£12,025
West Kintyre Community Council	Running & maintenance of Tayinloan Public Conveniences located at the Gigha Ferry Terminal	£200

Risks

10. The risks to be considered throughout the audit are:
 - **Audit Risk 1:** failure to comply with the principles of the Code
 - **Audit Risk 2:** failure to achieve value for money
 - **SRR03:** insufficient resource to meet current and future service requirement
 - **SRR04:** governance and leadership arrangements are not conducive to effective working and lead to a lack of strategic direction
 - **SRR05:** the Council fails to understand service user needs and emerging demographic trends and does not align service delivery to meet these.

Audit Opinion

11. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
12. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

13. We have highlighted one high priority recommendation, two medium priority recommendations and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - the Council's process to manage external funding requests should be revised to provide a more structured approach more closely aligned to the principles of FtPP
 - the SLA Register should be reviewed annually to ensure it is accurate and comprehensive
 - consideration should be given to centralising the administration of external funding agreements and/or creating a central repository for funding agreement documentation
 - elected member representation on the OLCE Board should be consistent with the funding agreement.
14. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

15. Exhibit 2 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 2 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	The Council has FtPP policies and procedures which are aligned to the Code.	Audit Risk 1 SRR03 SRR04	Limited	The Council has an approved process to manage external funding requests however it is limited in detail, is not aligned to the Code and there is a lack of general awareness that it exists. The SLA Register requires further review to ensure it is comprehensive and accurate and measures should be taken to ensure key documentation is properly filed and accessible.
2	When transferring funds to an external body there is a clear rationale and link between the purpose and council strategy.	Audit Risk 1 SRR03 SRR04 SRR05	Reasonable	Funding agreements state the funding purpose and risk assessments are carried out though not consistently or following a standard approach. Two of the sampled awards were not assessed to ensure they represent value for money and there needs to be greater clarity over delegated authority to approve funding awards.

3	The financial commitment and nature of the financial relationship with the external organisation is clearly stated.	Audit Risk 1 Audit Risk 2 SRR03	High	Funding agreements fully complied with the requirements of the Code in relation to providing clarity over the Council's financial commitment to the external body and the nature of financial relationship with them.
4	Monitoring arrangements for performance expectations has been clearly stipulated, set up and followed.	Audit Risk 1 Audit Risk 2 SRR03 SRR04 SRR05	Substantial	Funding agreements fully complied with the requirements of the Code in relation to establishing required levels of monitoring and reporting. Further clarity is required over the responsibility of any officer designated as being in a supervisory capacity over a funding agreement.
5	Appropriate consideration is given to Council representation on the boards of bodies awarded funds	Audit Risk 1 SRR04	Substantial	The Council has an appropriate process to determine representation on the boards of external bodies. Clarity is required over the current representation on the OLCE board.
6	Limitations to the Council's involvement are established at the outset.	Audit Risk 1 SRR04 SRR05	High	Funding agreements fully complied with the requirements of the Code in relation to establishing limitations to the Council's involvement.
7	Appropriate arrangements are in place to allow auditor access to the external body's records.	Audit Risk 1 Audit Risk 2 SRR04	High	Eight of the nine agreements stated the Council's right of access to records. For the other this was not deemed necessary.

16. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

The Council has FtPP policies and procedures which are aligned to the Code

17. The Code states that *'Councils will wish to have their own rules setting out procedures appropriate to their local circumstances and internal processes, and those rules should be based on this guidance.'* It further states that the guidance should apply to any substantial funding relationships and that the Council should determine what is deemed to be substantial giving *'regard to the significance of the funding in relation to their own budgets and its significance in relation to the budget of the external body'.*

18. In March 2015 the Policy and Resources Committee approved a 'Process for External Funding Requests' (the Process) which outlined a process and four stage review to be conducted when considering funding requests, other than those which are area committee grant schemes. This is a two tier process which requires a more detailed assessment for requests over £25,000 than those under that threshold. However there is no specific reference to considering the significance of the request in relation to the Council or service budget or in relation to the budget of the external body.

19. During testing discussions with officers confirmed there is a general lack of awareness that the Process existed. Furthermore testing of the nine agreements confirmed that the Process had not been formally applied for any of them. Despite this we could evidence examples of good practice and provide assurance that the general principles of FtPP are being observed. However this was due to officers acting in a professional manner and applying good judgement rather than applying the agreed Process.
20. Seven of the nine agreements evidenced consideration being given to the level of funding requested in relation to the activity/project being carried out however there was no consistent approach to this. Some had reviewed project costs and bank statements whilst others reviewed full business cases and equality impact assessments were carried out. The two agreements where there was no evidenced consideration were for funding awards under £25,000. This provided assurance that officers are interpreting what is 'substantial' and giving regard to the significance of the funding to the external body however a more consistent approach following revised guidance would provide greater compliance with the Code.
21. A desktop review of the Process and a comparison of it against local FtPP guidance created by other councils found it to be limited in detail and not clearly aligned to the FtPP principles.

Action Plan 1

22. An audit of ICT SLAs in 2017/18 recommended that the Council create a centralised SLA register. This action was taken and the register was used as a source of information when we selected funding agreements for this audit. This highlighted a number of agreements which were not on the SLA Register which we identified through discussions with officers. The register also didn't always reflect the correct named Council contact for specific SLAs or the financial relationship between the Council and the external body.

Action Plan 2

23. During the audit locating key documentation in relation to existing funding agreements was often problematic in part due to the named contacts on the SLA register being inaccurate or a lack of awareness of where historic documents were filed. Consideration should be given to either creating a central storage for funding documentation and/or allocating responsibility for administering funding agreements to either one service or a designated person in each appropriate service.

Action Plan 3

When transferring funds to an external body, there is a clear rationale and a demonstrable link between the purpose and council strategy

24. The Code requires that *'When agreeing to transfer funds to an external body a council must be clear about its reasons for doing so' and 'Proper considerations should always apply and the prime purpose of involvement with external bodies should be the achievement of the council's objectives in the most effective, efficient and economic manner'.*
25. We reviewed the sample of nine agreements to confirm whether:
 - the decision to award funding noted the purpose it was being provided for
 - this was aligned to Council objectives
 - a risk assessment had been carried out

- written agreements reflected the funding purpose, conditions of funding, reporting criteria and methods of measurement.

26. In summary we found that:

- The documented decision for seven agreements noted the purpose for which funding was awarded. For the remainder there was no formal note/minute of the decision. One was a £35,000 award made via an application form which clearly stated the purpose of the funding and the other was a low value agreement of £200 per year.
- For all nine a risk assessment of some form had been carried out although there was no consistent approach or standard format.
- For seven consideration had been given to whether the funding award was an effective, efficient and economical use of resource. For the remaining two there was no evidence this had been assessed.
- For all nine the written agreement between the Council and the external body clearly reflected the purpose for which funding was provided. Eight reflected the requirements set out in the final bullet point at paragraph 25. For the other it was not deemed necessary to specify methods of measurement or reporting criteria as Council officers were to undertake physical inspections.

Action Plan 1

27. Of the nine agreements the decision to award the funding was made by full Council on five occasions, one by the Community Services Committee and three by Council officers. The Process, as it is currently worded, requires final approval of all applications to be made by the Policy and Resources Committee based on recommendations made by the Council's Senior Management Team.

Action Plan 1

The financial commitment and nature of the financial relationship with the external organisation is clearly stated

28. The Code requires the Council be clear about its financial commitment to the external body and the nature of financial relationship with them. In particular it requires clarity over:

- payment criteria
- the transfer and end destination of any assets
- the Council's entitlement to any financial return
- commitments to financial contributions not being open-ended in duration or amount
- any minimum standard of management and/or operating arrangements.

29. All nine written agreements fully complied with these requirements.

Monitoring arrangements for performance expectations has been clearly stipulated, set up and followed

30. The Code requires the Council to stipulate how it intends to monitor the relationship between itself and the external body. All nine agreements specified the required levels of monitoring and reporting. Eight included financial reporting and the achievement of targets, with evidence that the monitoring requirements were being complied with. For the ninth staff inspections of the premises was deemed appropriate monitoring.

31. The Process states that the lead service will develop protocols subject to the nature/type of award however it doesn't provide clarity over the responsibility of any officer designated as being in a supervisory capacity over a funding agreement. This is a requirement of the Code.

Action Plan 1

Appropriate consideration is given to Council representation on the boards of bodies awarded funds

32. The Code requires the Council to consider whether representation on the external bodies' board is appropriate and, if so, clearly define the roles and responsibilities and have a process for dealing with conflicts of interest.
33. The Council has a process for selecting members as representatives for boards and committees which involves inviting expressions of interest and giving consideration to factors such as previous experience, knowledge, skills, responsibilities, commitment required, potential conflicts of interest and any legal requirements.
34. The Council maintains a member's register of interest on the Council website and declarations of interest are standing agenda items for Council meetings.
35. For the agreements tested, it was deemed necessary to have the following representation on boards (or equivalent)
- Live Argyll – two elected members
 - OLCE – two elected members
 - Fèisean Nan Gaidheal – one Council officer.
36. Currently there is only one elected member appointed to the OLCE board. If it is no longer deemed necessary to have two elected members on this board the agreement should be updated to reflect this. Alternatively a second elected member should be appointed.

Action Plan 4

Limitations to the Council's involvement are established at the outset

37. The Code requires that the Council, when entering into a substantial funding commitment with an external body, should lay down a timetable for the achievement of the objectives. There should be clear limits on the Council's financial involvement with rules in place to provide for agreement termination and events/situations that would trigger a review.
38. All nine agreements detailed timescales for the achievement of objectives with the exception of the Tayinloan Public Conveniences which is not substantial. All established limitations on the Council's involvement, both in financial terms and, where applicable, staff involvement. Furthermore all nine established rules for terminating the funding agreements and circumstances that would trigger a review.
39. Of the nine agreements, eight had been subject to a review within the past 12 months. The others has not been reviewed since the agreement was put in place in June 2015. This agreement is not material in value (£200 annually) however monitoring should still be carried out as detailed in the funding agreement.

Action Plan 1

Appropriate arrangements are in place to allow auditor access to the external body's records.

40. Eight of the agreements stated the Council's right of access to records, the exception being Tayinloan Public Conveniences which is not a substantial award.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Guidance on Following the Public Pound (FtPP)</p> <p>Although the Council has an approved process to manage external funding requests it is limited in detail, is not closely aligned to the Code of Guidance on Funding External Bodies and Following the Public Pound and there is a general lack of awareness amongst officers that it exists. Audit testing identified a number of areas of good practice within the Council and overall compliance with the principles of FtPP however there were examples of inconsistent practice.</p> <p>A more comprehensive guidance document should be established which provides a more standardised and tiered approach providing greater clarity over roles and responsibilities and standardised templates for key stages in the process including funding assessments and post award monitoring and reporting. The audit team researched a number of examples of FtPP guidance which had been created by other councils during the planning phase of the audit and can make these available to inform the creation of an Argyll and Bute equivalent.</p>	Inconsistent practices and non-compliance with FtPP principles.	Following the Public Pound guidance will be drafted to provide a consistent approach to managing the award of external funds.	Head of Financial Services 30 April 2020

Medium	2	<p>Service Level Agreement Register</p> <p>An SLA Register was created in response to a recommendation made in an audit of ICT SLAs in 2017/18. During the FtPP audit we identified a number of agreements which were not on the SLA Register and also records on the register which were not complete or accurate.</p>	<p>The Council may not achieve value for money for services provided through a SLA.</p>	<p>The SLA Register will be reviewed by the Procurement and Commissioning Manager to ensure the current information in it is accurate.</p> <p>Procurement and Commissioning Manager to then circulate updated SLA Register it to all Heads of Service for them to review and feedback on any missing agreements. Heads of Service to:</p> <ul style="list-style-type: none"> • review spend directly awarded to suppliers without a procurement process to identify the organisations being funded • review these to determine if it should be a SLA/grant or require a retender • update the SLA Register to reflect this determination. 	<p>Procurement and Commissioning Manager</p> <p>30 November 2019</p> <p>All Heads of Service</p> <p>31 March 2020</p>
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Medium	3	Administration of Funding Agreements During the audit locating key documentation in relation to existing funding agreements was often problematic in part due to the named contacts on the SLA register being inaccurate or a lack of awareness of where historic documents were filed. Consideration should be given either to creating a central storage for funding documentation and/or allocating responsibility for administering funding agreements to one department.	The Council may not have an accurate record of the terms and conditions contained within funding agreements.	Procurement and Commissioning Manager to liaise with IT to establish a new Sharepoint site to be used as a central repository for the SLA Register and all funding documentation and advise all Heads of Service of Sharepoint address. Heads of Service to populate Sharepoint site with all appropriate funding documentation for SLA Register entries their service is responsible for.	Procurement and Commissioning Manager 30 November 2019 All Heads of Service 30 April 2020
Low	4	Oban & Lorn Community Enterprise Ltd Board Based on the funding agreement with OLCE the Council are supposed to be represented on the OLCE board by two elected members. There is currently only one member on the OLCE board.	The Council have insufficient oversight over the operational activity of OLCE.	A paper will be taken to the 16 April 2020 Council meeting to ask members to either nominate a second representative to the OLCE Board or reduce the required representation to one elected member.	Head of Legal and Regulatory Support 17 March 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and 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 the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness 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 placing 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 the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.