East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 January 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Payments to Third Sector Organisations

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Payments to Third Sector Organisations.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

3.1 A review of Payments to Third Sector Organisations was undertaken as part of the audit plan for 2015/16. Internal Audit are undertaking a series of audits on following the public pound – in 2014/15 a review of Partnership Funding was carried out, the current review relates to payments by Adult Wellbeing and in 2016/17 we will examine payments to Third Sector Organisations by Children's Wellbeing.

3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5   EQUALITIES IMPACT ASSESSMENT

5.1   This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

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DATE	7 January 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS TO THIRD SECTOR ORGANISATIONS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Payments to Third Sector Organisations by Adult Wellbeing was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place for the approval of grant awards to Third Sector Organisations – grant awards for 2015/16 were approved by Cabinet.
- For the sample of grant payments examined, we found that the amounts paid were consistent with the amounts approved.
- Where reviews are carried out, comprehensive reports covering service delivery, performance outcomes and strategic relevance are held on file.

1.3 Areas with Scope for Improvement

- No corporate policy is in place providing a framework for funding Third Sector Organisations. *Risk – an inconsistent approach may be adopted.*
- For organisations receiving grant payments from separate funding streams within the Council there was a lack of a joined up approach for the assessment, monitoring, review and payment of grant funding. *Risk – an inconsistent approach may be adopted.*
- There was a lack of evidence to demonstrate the basis on which award recommendations had been made or how the level of grant award had been established. *Risk – lack of a clear audit trail.*
- In some cases, there was a lack of documentation in place clearly setting out the conditions of the grant award. *Risk – failure to adhere to grant conditions.*
- At present there is no requirement for organisations receiving grant funding to provide an annual report to demonstrate that the funding has delivered the desired outcomes. *Risk – failure to ensure that grants are used for their intended purpose.*
- In some cases, there was a lack of evidence of organisations being reviewed on a regular basis. *Risk – lack of assurance that desired outcomes are being achieved.*

1.4 Summary

Our review of Payments to Third Sector Organisations has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager   **January 2016**

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS TO THIRD SECTOR ORGANISATIONS

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that detailed guidance is developed clearly setting out the systems and processes to be followed for grant funding provided and payments made to third sector organisations.	Medium	Service Manager – Resources	Procedure to be developed outlining criteria and decision-making processes. Process for authorising to be outlined.		April 2016
3.3.1	Management should ensure that all recommendations for awards to third sector organisations are included timeously in the report submitted to Cabinet for approval. Management should ensure that reports presented to Cabinet for approval clearly inform Members of those organisations where Service Level Agreements are to cover more than one year. Management should ensure that a consistent and coordinated approach is adopted for the approval and awarding of third sector grant funding.	Medium	Service Manager – Resources	Above process to include the point in the time of year when these decisions need to be made. To be clearly marked in the report in future reports. These awards will be decided at AW management team meeting and approved at the procurement board.		April 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that adequate documentation is held clearly outlining the conditions of the grant funding. Management should ensure that all agreements in place are signed by both the Council and the organisation receiving the grant funding – all agreements should be signed timeously.	Medium	Service Manager – Resources	Formal agreements in the same format to be developed for all organisations in receipt of a grant. Stipulated as part of the above process.		September 2016 As above
3.5.1	For all new grant awards made, Management should ensure that relevant documentation is provided by the organisation to enable a detailed assessment to be carried out. Management should ensure that there is clear evidence to demonstrate the basis on which the award is being made and the rationale for the level of award recommended for approval.	Medium	Service Manager – Resources	A letter will be issued requesting the relevant information commencing now. Developed as part of processes and procedures above.		April 2016 April 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2	Management should ensure that organisations receiving grant funding provide an annual report to the Council to confirm that the desired outcomes have been delivered.	Medium	Service Manager – Resources	This will be included in future SLAs and contractual agreements following the next renewals.		September 2016
	Management should ensure that a clear programme of reviews is in place for all third sector organisations receiving funding.			To be developed as part of team workplan.		April 2016
3.6.1	Management should ensure that grant payments are only made to organisations where formal approval has been given.	Medium	Service Manager – Resources	This will occur as part of monthly procurement board and annual Cabinet report.		April 2016
	Management should ensure that new creditor accounts are not set up for existing creditors already on the system.		Corporate Finance Manager	Agreed		February 2016
	Management should ensure that a review of creditor accounts is undertaken to highlight duplicate accounts – where duplicate accounts are identified these should be closed.					

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	**Consideration should be given to reviewing the current arrangements in place for grants awarded to organisations from separate funding streams.**	**Medium**	**Service Manager – Resources**	**Raise at regular meeting with Paolo Vestri as well as procurement board where CW are present. A one off meeting will be set up with CW to develop shared approach.**		**April 2016**

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.