

REPORT TO: Audit and Governance Committee

MEETING DATE: 29 November 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 2016/17. Internal Audit have undertaken a series of audits on following the public pound – in 2014/15 we examined payments made by Community Partnerships, in 2015/16 we reviewed payments made by Adult Wellbeing and our current review relates to payments to Third Sector Organisations by Children’s Services.
- 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – None
6.2 Personnel – None
6.3 Other – None

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	17 November 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 Children's Services was undertaken as part of the Audit Plan for 2016/17. 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 made by Children's Services in 2015/16 and 2016/17 were approved by Cabinet.
- Award letters are sent to organisations confirming the grant award and the payment dates.

1.3 Areas with Scope for Improvement

- At present, there is a lack of guidance in place clearly setting out the procedures to be followed for grants awarded to Third Sector Organisations. *Risk – lack of a consistent approach.*
- In some cases, no Service Level Agreements were in place between the Council and the organisations receiving grant funding. *Risk – failure to achieve desired outcomes.*
- At present no arrangements are in place to ensure regular reconciliations are undertaken between grant amounts approved and amounts paid. *Risk – over or underpayments may occur and remain undetected.*
- In one case, no regular monitoring meetings were being held to assess if grant conditions were being met. *Risk – failure to achieve desired outcome.*
- The reporting to Cabinet of grant funding to Third Sector Organisations requires review – we found that grant awards made by the Council's Homelessness Section did not form part of the Cabinet report submitted for approval. *Risk – failure to adopt a consistent approach.*
- The standing data on the creditors system requires review – in two cases duplicate creditor accounts were identified for organisations receiving grant funding. *Risk – duplicate payments may be made.*

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**

November 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 procedures to be followed for grants awarded to third sector organisations.	Medium	Service Manager – Children’s Long Term Care & Support Services	2017/18 grants system will be developed by modifying the existing partnership funding system which is in place elsewhere in the Council. This application and monitoring process will be a clear system and process to achieve this recommendation.		March 2017
3.4.1	Management should ensure that Service Level Agreements are in place for organisations receiving grant funding – all agreements should be signed by both the Council and the organisation.	Medium	Service Manager – Children’s Long Term Care & Support Services	Along with legal services, a new agreement system is being developed which will be in place for the awarding of the 2017/18 grants.		March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that adequate monitoring arrangements are in place for third sector organisations receiving funding.	Medium	Service Manager – Children’s Long Term Care & Support Services	Monitoring systems are now in place with agencies being visited quarterly where appropriate and annually otherwise.		November 2016
3.6.1	Management should ensure that the general ledger accurately reflects all grant funding provided.	Medium	Service Manager – Children’s Long Term Care & Support Services	Finance will be asked to reflect that the grant to East Lothian Special Needs Play Schemes includes the in kind transport provided by Transport Services (£39,905 p.a.).		March 2017
3.7.1	Management should ensure that regular reconciliations are undertaken between the grant amounts approved and the amounts paid to organisations. All variances identified should be investigated.	Medium	Service Manager – Children’s Long Term Care & Support Services	Children’s Services will produce a regular reconciliation to show actual amounts paid to organisations against amounts approved.		March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	<p>Management should ensure that a review of creditor accounts is undertaken to highlight all duplicate accounts and appropriate action should be taken.</p> <p>Management should ensure that new creditor accounts are not set up for existing creditors already on the system.</p>	High	Service Manager – Corporate Finance	Agreed – reviews are currently being carried out.		March 2017
3.9.1	Management should ensure that a consistent approach is adopted for the reporting to Cabinet of grant funding to Third Sector Organisations.	Medium	Homelessness Manager	Agreed – grant payments made by the Homelessness Section will be reported to Cabinet.		March 2017

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.