SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Final Internal Audit Report

Community Funding

October 2011

Issued to:	Richard Protheroe Head of Housing, Partnerships and Communications.
Copied to:	Karen Griffiths Corporate Policy & Partnerships Team Leader
Report Status:	Final
Reference:	S32201/11/001
Overall Assurance:	Limited Assurance

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1. EXECUTIVE SUMMARY

Introduction

1.1 This audit was derived from the approved 2011/12 Annual Audit Plan and forms part of the managed audit approach between Internal Audit and the external auditors.

1.2 The report details the procedures and controls in place over Community Funding (CF). This audit has been undertaken in accordance with the 2011/12 Internal Audit Plan. A risk based audit methodology has been applied in undertaking audit testing and focused on the period from 1 April 2010 to May 2011.

1.3 In March 2009 Internal Audit issued a Final report which had 30 recommendations due to be implemented by October 2009. A follow up audit was carried out in March 2010 and this confirmed that out of these recommendations, 19 had been fully implemented, 6 partially, 4 were yet to be implemented and one risk was accepted by the management. Revised implementation dates were then agreed with Management for those recommendations that had not been implemented or were incomplete. However, in February 2011, following the Executive Committee (EC) decision, the funding approach was changed and as a result, this invalidated some controls that were in place or were recommended during the previous audit.

1.4 The CF approach used in the past (i.e. one based on a 'competitive' application process, in which those applications were subject to a formal assessment and funding award process) has changed in 2011/12 in response to pressure on Council budgets and the corresponding conclusion that the process was administratively too resource intensive. The Council may move to a formal commissioning / contracting approach for 2012/13, i.e. awarding funding to those community organisations that successfully complete a tender exercise (or similar) to deliver services that the Council specifies or negotiates with them. This may include 'sub-contracting' the evaluation and award process to Social Enterprise organisation. 2011/12 represents, effectively, a transitional year as the Council moves away from its previous application based approach to CF to a new 'contract based' approach.

Overall Audit Opinion

1.5 Based on the work performed during this audit, we have identified that there are significant changes within the CF and the future funding allocation is uncertain as this is yet to be decided. Due to audit evidence limitation, we can only provide overall a **Limited assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review as listed below in section 2 Assurance by Risk area.

1.6 Please see definitions for the overall assurance levels at Appendix B, as well as the Assurance by Risk Area below.

Summary of Recommendations

1.7   We have made 10 recommendations, four as 'Medium' and two as 'Merits Attention', to further strengthen the internal controls and management / audit trail.

1.8   On the basis of the audit work undertaken, four recommendations have been classified as 'High'. This is mainly due to the effect of changes to the Community Funding allocation, the service failure to maintain evidence of how the funding assessment process for 2011/12 was carried out and the uncertainty of the future funding approach.

1.9   We understand that the service Voluntary and Community Sector (VCS) Strategy process is in place and this is considering different options for future funding, such as procurement by commissioning (either directly by the Council or through a Social Enterprise vehicle), or reducing funding further, or funding to be given through budgets, etc. This VCS is expected to report to the Executive members in November 2011.

1.10 We noted that the change in CF approach for 2011/12 included a decision that no new applicants were considered; rather the funding for 2011/12 was only offered to certain of the previous recipients who were judged to be able to offer services that would meet the Council's objectives in this area. Therefore the Council may have left itself at risk of accusations of being biased and unfair towards community groups in Stevenage that were not considered for funding. In turn this could give rise to the resulting risk of a legal challenge to its process. It follows that there is a risk of a lack of transparency in the Council's procedures for allocating community funding. It is not clear how this approach is consistent with the Council's normal rules for making payments to contractors, suppliers or other bodies.

1.11 Please see the Management Action Plan at Appendix A for further detail.

Annual Governance Statement

1.12 There are no implications for the Annual Governance Statement arising from this audit.

2. ASSURANCE BY RISK AREA

2.1   Our specific objectives in undertaking this work, as agreed with the Service Manager, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	None	Limited	Moderate	Substantial	Full
Policy & Procedures	▓	▓	▓		
Applications/Selection Criteria	▓	▓			
Appraisal/Assessment	▓	▓			
Awards and Appeals	▓	▓			
Payments	▓	▓	▓		
Monitoring	▓	▓			

	None	Limited	Moderate	Substantial	Full
Overall	▓	▓			

2.2 See definitions for the above assurance levels at Appendix B.

Appendix A - Management Action Plan

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
R1	**Policy & Procedures** Following the previous audit that was carried out in 2008/09 and a follow up audit in March 2010, the CF Policies and Procedures were implemented. However, these documents have not been updated. We understand that the EC report for February 2011 was seen as setting out the policy for 2011/12 and this was used for processing award allocations, and it was made available to the three Officers that were involved in the processing. We also understand that the funding approach for 2012/13 onwards is yet to be decided and therefore, future policies and procedures are not known.	Medium	We recommend that once the future funding decisions has been agreed, the policies and procedures be updated and made available to all relevant staff on the service shared computer drive.	**Responsible Officer: Karen Griffiths** Community funding for 2012/13 will follow a procurement process and approach. Once the process has been agreed all polices and procedures will be updated and made internally available.	March 2012
R2	**Policy & Procedures – Register of Interest.** There is no separate register of interest for the staff to declare interests except on the assessment form, whereby the assessing officer declares if there is a conflict of interest. However, following changes in funding allocation, there is no procedure in place for staff to declare interest.	Merits Attention	The procedure for staff to declare interests should be documented and where a decision is made to continue declaring interests on the assessment form then the assessment documents that will be used should include a statement for the assessing officer/s to declare interests.	This is not applicable as will follow procurement process which includes declaration of interest for officers and members involved in procurement/tender process.	This is not applicable

R3	**Application/Selection Criteria - Process** We identified that there were no records retained documenting how the assessment was carried out that resulted in the funding allocation decisions for 2011/12. We understand that even though it is not clearly stated within the EC report, all organisations that were in receipt of funding in 2010/11 were assessed based on the criteria decided by EC in February 2011, and then the Equality Impact assessment was carried out for those organisations that did not meet the funding criteria. Since no formal documentation was retained to show how the assessment was carried out, the service would not be able to provide evidence that the process has been carried out objectively without being biased or unfair towards community groups operating within Stevenage in the event of a challenge or complaint.	High	The Community Funding assessment process carried out should be documented and in future, the executive minutes should include a statement that all organisations were assessed and organisations that did not meet all the expected criteria had then been considered for an Equality Impact assessment. If the Council moves to a formal commissioning / tender approach then following normal contracting / procurement procedures should provide the necessary records.	**Responsible Officer: Karen Griffiths** All documents and records will be kept in line with good practice and legal requirements in procurement/tendering	March 2012

R4	**Application/Selection Criteria - process** The EC in February 2011 decided that no new applicants would be invited. As there was no formal application process available to the whole community, and funding was only offered to some of the previous recipients, the Council may have left itself at risk of accusations of being biased and unfair towards community groups operating within Stevenage and any resulting legal challenge to its process or adverse publicity.	High	Whatever approach is agreed to be used in future to award CF, Management should ensure that this does not expose the Council to the risk of legal challenge from any organisations that are unable to apply for or access CF, or are not awarded CF. This risk assessment should be documented. In addition the approach must comply with Council financial regulations, notably procurement regulations.	**Responsible Officer: Karen Griffiths** All documents and records will be kept in line with good practice and legal requirements in procurement/tendering as well as financial requirements for the Council.	March 2012
R5	**Appraisal/Assessment - Process** The assessment process that was carried out was not formally recorded.	Medium	The Community Funding assessment process carried out should be documented, giving details of the procedures used and how decisions were made, and then the assessment document should be signed off and dated by the assessing officer/s. The Service Manager should check and sign to authorise the list of organisations selected to be considered for a funding award.	**Responsible Officer: Karen Griffiths** This will be carried out as part of the procurement/tender process The Corporate Policy & Partnerships manager will check and sign to authorise funding through normal contracting/procurement processes.	March 2012

			If the Council moves to a formal commissioning / tender approach then following normal contracting / procurement procedures should provide the necessary records.		
R6	**Awards and Appeals** The CF appeal procedures were implemented following the previous audit, but this has not been updated following 2011/12 changes to funding.	Medium	Once the future funding method has been decided, the CF appeal procedures should then be updated in line with the approved funding approach at the time.	**Responsible Officer: Karen Griffiths** Procedures will be updated to follow best practice in procurement/contract management	March 2012
R7	**Payments & monitoring** Funding milestones were in place in year 2010/11 and all the pre-requisite milestone reports had been received prior to authorising payments. However, while all the other payment processes have been followed for 2011/12, there are no milestones set for 2011/12.	High	2011/12 funding milestones for individual organisations should be agreed as soon as possible to allow monitoring before the next quarter payments in September 2011.	**Responsible Officer: Karen Griffiths** Milestones will be set and monitored in line with normal good practice contracting and contract monitoring processes	March 2012
R8	**Monitoring - Milestone** Procedures for identifying non-achievement of milestones, mis-use of award payments and action to recover payments used to be included in the Community Grant Pro Forma Reconciliation Sheet, but these are no longer applicable as a result of the new funding approach, but no new procedure has been put in place following changes to the funding approach.	Medium	There is a need for the service to identify procedures for non-achievement of milestones, mis-use of award payments and action to recover payments and for the results to be reported to the Communications and Partnership Manager.	**Responsible Officer: Karen Griffiths** Monitoring will be carried out in line with normal good practice in contract monitoring. The Corporate Policy & Partnerships manager will ensure the award of payments in line with fulfilment of agreed milestones and measures in the contract.	March 2012

R9	**Monitoring – Performance and control** We understand that physical checks on milestones have not been routinely monitored due to a lack of resources resulting from the internal staff restructuring programme that was happening within Stevenage Council. We were also informed by the Service Management that the service relied on milestones reported by the organisations themselves and information from other sources, such as from the Councillors' attendance of the organisations' AGM and also regular meetings held with the organisations in receipt of funding by the Portfolio Holder for Community Health and Older People. We understand that no report has been received that any organisation has failed to use its funding appropriately, but no formal documentation has been retained to record how the service monitored to ensure that the funding has been used for the purpose that it was awarded for.	Medium	The service should establish the future procedures for identifying performance and quality control in order to ensure that the Council's objectives on community funding are met and that funding has been used for the purpose that it was awarded for.	**Responsible Officer: Karen Griffiths** Monitoring will be carried out in line with normal good practice in contract monitoring. The Corporate Policy & Partnerships manager will ensure the award of payments in line with fulfilment of agreed milestones and measures in the contract.	March 2012

| R10 | **Monitoring – Year End Report**
The CF year end report for 2009/10 was produced, and reported to Executive Portfolio Holders, SMB and EC, but none was produced for 2010/11.

We were advised that the report was not produced due to lack of resources and the change in funding allocation. However, it may not be possible to establish whether the Community Funding awarded to various organisations achieved their intended outcomes or milestones. | Merits Attention | A Community Funding year end report should be produced and presented to the Executive Portfolio Holders, SMB and EC at the end of each financial year. | This is not applicable. Community grants will move to a procurement/tendering process with outcomes, outputs and milestones monitored through good practice contract monitoring processes. | Not applicable |

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.