

Committee: Governance, Audit and Performance Committee
Title: Internal Audit Report - Grants to Community Organisations
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Summary

1. Internal Audit recently undertook a review of the above in accordance with the Terms of Reference presented to GAP Committee on 16th March 2021. This report presents the outcome of our review

Recommendations

2. GAP Committee are requested to note the content of this report

Financial Implications

3. The Council's 2020/21 total main budget for grants to community organisations was c.£755k, with 2020/21 expenditure totalling approx. £533k.

Background Papers

4. None

Impact

Communication/Consultation	This report has been discussed with, and noted by, Service Managers and CMT.
Community Safety	None
Equalities	Any changes made to the Grants Policy/ies should be subject to EqHIA
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None

Workforce/Workplace	None
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Situation

5. The Council's 2020/21 total main budget for grants to community organisations was c.£755k, with 2020/21 expenditure totalling approx. £533k. In addition, the Cabinet may authorise one-off funding from its Strategic Initiatives Fund (SIF). The objective of this audit was to provide a risk-based review of the council's current governance and internal control arrangements for awarding funding to community organisations and monitoring funding usage to ensure that the grants awarded constitute an appropriate use of expenditure.
6. The key aspects of the management control framework over grant funding administration should include:
 - Clearly defined roles, responsibilities and accountabilities are established for the management of grants.
 - Grant funding programmes are accessible, understandable, and useable by applicants and recipients.
 - A process is laid down to ensure grant programmes are designed, delivered, and managed in a manner that takes account of risk and cost-effective transparent oversight and control systems exist.
7. The scope of our work is limited to areas above and is an assessment of whether the risks which may impact on the Council's governance and oversight arrangements for grant funding to community organisations are being managed effectively and therefore did not consider the eligibility of individual grant awards made.
8. This report presents the outcome of our review. Overall, we found that there is a complex grant system in place due to the number of different grant types in place across the Council, which has led to some inconsistencies in approach and oversight. The Council may benefit from a review of its whole grant programme to explore if it can be rationalised and subject to a central grants policy, which would improve the overall transparency of funding.
9. In summary, two high priority findings have been identified relating to Grant Policy and Terms and Conditions of Funding. Four medium priority findings have been identified relating to eligibility and selection process, monitoring of multiple grant recipients, grant monitoring and transparency reporting.
10. An action plan is attached at Appendix A to assist with the design of controls, should management wish to treat identified risks.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Lack of robust governance arrangements for the governance of grant funding to community organisations may result in financial loss and/or reputational damage.	2	3	See recommendations below

1 = Little or no risk or impact; 2 = Some risk or impact – action may be necessary; 3 = Significant risk or impact – action required; 4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Ref.	Audit Findings	Risk	Recommendations	Priority
1.	<p><u>Grant Policy and Procedures</u></p> <p>Internal audit identified 17 different grant types to community organisations. Eight relate to ongoing funding programmes; the remainder are one-off and/or annual funding (see Table 1 for detail). Due to the complexity of the grant funding system, it should be noted that there may be further grants that have not been identified during this review.</p> <p>While ten of these grants are overseen by the Council's Community Development Officer, the remainder are managed by other individuals across the Council. Internal Audit noted that due to the lack of central management/oversight of these grants and/or a central Grants Policy governing the administration across the Council of funds to community organisations, this may lead to inconsistencies in their administration and management.</p> <p>Whilst there is no central policy, there are policies/guidance notes covering some of the individual programmes, although this is not always the case (see Table 1 for detail):</p> <ul style="list-style-type: none"> • Six of the main programmes had a 	<p>Council funding to community organisations may not be aligned to the Council's corporate objectives as outline in its Corporate Plan, and therefore, funding may not be distributed to programmes and activities that support delivery of the Council's strategy.</p> <p>Inconsistencies as a result of the number and variety of grants being administered, as well as different management across the Council, may lead to lack of transparency and increased risk of perception of lack of objectivity and fairness, resulting in reputational damage.</p>	<p>Consideration should be given to a review of the grants provided to community organisations, to explore bringing funds under one central policy and/or streamlining the number of grants to ensure there is clear alignment to the Council's objectives. The central policy should govern all grant funding decisions, regardless of funding source, to ensure clear, consistent, and transparent management of funds.</p> <p>Alternatively, if the decision is made to remain with the current system, each fund should have a grant policy. New and existing individual grant policies should be reviewed and updated to ensure they are consistent with one another. Grant funding should not be agreed without an approved policy in place. It is also recommended if this route is chosen that the Community Development Officer's database should be expanded to include all grants awarded (see also Finding 4).</p> <p><i>Internal Audit can provide advice separately regarding suggestions for the Policy content.</i></p>	<p>● High</p>

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	<p>policy/ guidance notes, however, two of the programmes are in the process of having their policies reviewed. While these policies exist, some inconsistencies in expectations were identified between the documents. Furthermore, due to the age of some of these policies, they have not all been subject to a recent EqHIA to demonstrate that the funding policy has assessed the Council's consideration of its equalities responsibilities.</p> <ul style="list-style-type: none"> • Four schemes are historic annual payments, for which agreements could not be identified. <p>Three large one-off payments were as a result of a Cabinet decision for which Cabinet reports were identified. A funding agreement is in place for one of these grants but were not identified for the remaining two.</p>		<p>The Grant Policy/ies should be subject to EqHIAs to ensure that the Council is distributing its funds in line with its priorities, fairly and transparently.</p>	
2.	<p>Grant Funding Terms and Conditions</p> <p>All grants should be issued with consistent grant funding terms and conditions that protects the Council adequately e.g., safeguarding, data protection etc, and allows for the right to audit and clawback of funds if not used in line with conditions or timescale. Service standards</p>	<p>Lack of formal, clear and/or consistent service standards agreed between the Council and the recipient organisation for the delivery of commissioned services may result in the Council not being able to promptly identify performance issues and/or being unable to take required action to</p>	<p>A review of all grant funding terms and conditions should be undertaken as part of the wider streamlining review. Terms and conditions should be proportionate to the size/risk assessment of the grant and should be consistent regardless of grant type/source. Standard terms and</p>	<p>● High</p>

Ref.	Audit Findings	Risk	Recommendations	Priority
	<p>/requirements should also be clearly stipulated within the grants terms and conditions to ensure the Council can identify performance issues.</p> <p>Internal Audit noted that different grant types have different terms and conditions which are set out to recipients in their funding letters. Reference is not always made to safeguarding, data protection etc (it may be set out in criteria in the guidance notes/application form, e.g., Large Sports Grant/ Leisure/ Culture Grant, Transport Provision Grant, however, it was noted that the requirements are not always consistent).</p>	<p>retrieve Council funding where poor performance is identified.</p>	<p>conditions for the grant award which should be listed on each offer letter.</p> <p>Grant payments should not be made until agreed funding terms and conditions are in place.</p> <p>Consideration should be given to forming SLA's or equivalent between the Council and community organisations for larger grants (and therefore those considered higher risk) to more formally set out the funding agreement, including roles and responsibilities, service standards/ expectations, performance indicators, monitoring, communication, legal clauses and dispute resolution etc.</p>	
3.	<p><u>Eligibility and Selection Process</u></p> <p>In order to ensure grants are awarded objectively, fairly and transparently, eligibility and award criteria should be defined, aligned to the grant policy and included in grant terms and conditions.</p> <p>Due to the lack of a central Grants Policy, this leads to definitive eligibility and award criteria not being in place which could lead to inconsistency and lack of objective assessment. This may also impact on the transparency of award decisions, especially where one-off funding is</p>	<p>Lack of a central approach/policy for Council funding may lead to associated eligibility and award criteria not being consistent, objective, fair and/or transparent and funding may not be distributed to programmes and activities that support delivery of the Council's strategy.</p> <p>Requiring different assessment and award approaches to different grants may lead to added complexities and inefficiencies in the management of the grant's programmes. Inconsistencies may also lead to lack of transparency and increased risk of</p>	<p>Should a central Grants Policy be implemented, an associated eligibility/ award criteria and due diligence/ assessment process should be developed that is proportionate to the size/risk assessment of grant award, and which is transparent and consistent.</p> <p><i>Internal Audit can provide support and advice on this.</i></p> <p>To simplify the current process and/or for future approach, consideration should be given to establishing one</p>	<p>● Medium</p>

Ref.	Audit Findings	Risk	Recommendations	Priority
	<p>granted historically and/or outside of the main grants' programmes.</p> <p>For the main grants' programmes (see table 1), depending on the grant, the following assessment process is undertaken:</p> <p>Ward Councillors: individual applications are reviewed by the Community Development Officer, then counter-approved by the Director of Finance.</p> <p>Community Project Grant: applications are reviewed and assessed by the Community Development Officer, the Communities Manager and Portfolio Holder for Communities</p> <p>Voluntary Organisation Support Grant: applications are reviewed and assessed against grant criteria by the Community Development Officer and the Communities Manager. The results are then reviewed by a Committee of the Cabinet (Voluntary Organisation Support Grant Committee), which is a public meeting chaired by the Leader, Deputy Leader/Portfolio Holder for Housing and Health, and Portfolio Holder for Finance and Budget, who will evaluate the applications and approve the funding.</p> <p>Applications for the remaining smaller individual grants in the main grants</p>	<p>perception of lack of objectivity and fairness, resulting in reputational damage.</p>	<p>Grants panel with representation of appropriate officers/ Members to oversee the award of Council funds (with exception of Ward Councillor Funds which would require officer only approval for separation of duty purposes).</p>	

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	<p>programme are reviewed by the Community Development Officer/Community Safety Officer (Youth Grant) in conjunction with the Communities Manager, to determine if they meet the grant criteria outlined in the Grant's guidance notes prior to approval. The Portfolio Holder is advised of the outcome.</p> <p>Furthermore, due to the variety of grants, this leads to different due diligence assessment requirements and types of supporting documentation/ match funding evidence required.</p> <p>The procedures in place for the main grants programmes are designed to allow good control over eligibility assessment and selection decision, especially where there is oversight from more than one officer, however, due to the number and variety of grants, having different approaches to assessment and award adds to the complexity of the system and could be unwieldy to manage. While it is understood that that assessment/ award and due diligence should be proportionate to the level of funding, and therefore risk to the Council, inconsistencies in approach may also impact on the perception of transparency and objectivity in the system.</p>			

Ref.	Audit Findings	Risk	Recommendations	Priority
4.	<p>Monitoring of Multiple Grant Receipts</p> <p>Due to the number and variety of grants being administered, it is difficult to conclusively determine whether grant recipients are receiving Council funds from more than one source and/or the total value. Internal Audit noted that the Community Development Officer maintains a database for the grants for which they are responsible, however, this does not include grants outside of the main programmes. While it is understood that receiving different funding streams may be appropriate, incomplete central oversight of the total value of funds received by specific organisations may be significant in aggregate and may require a different monitoring approach required i.e., the organisation may be considered higher risk as a result of total funds received.</p> <p>Conversely, due to the fragmented grants approach, there is an additional risk that organisations may be declined for a grant in one area but be successful for funding in another. While that may be legitimately due to better alignment of funding objectives, having numerous sourcing types could be confusing to applicants and may mean that organisations miss out on</p>	<p>The total value of grant funding received by community organisations may not be considered which may lead to an inappropriate monitoring approach being adopted which is not proportionate to the risk. This may mean that council money may not be spent in line with the grant terms and conditions of the grant and/or fraud/misappropriation may go undetected.</p> <p>Lack of a consistent grant award/disbursement/monitoring procedure across all grant awarding area of the Council may lead to increased risks of grants being awarded incorrectly/inappropriately and/or reputational damage to the council.</p>	<p>Consideration should be given to sharing a central grant awarding/disbursement/ monitoring procedure for use by each grant awarding area of the Council to ensure a consistent approach is adopted by all areas.</p> <p>Consideration should be given to expanding the Community Development Officer's database to include all grants awarded, which can be accessed by the grant awarding areas to ensure that combined Council funds are taken into consideration when awarding grants/ deciding the monitoring approach. This may also ensure that any issues with grant recipients can be notified to other areas who may also provide grant funding to that organisation.</p> <p>Consideration should be given to working alongside other public sector partners (such as ECC and West Essex CGG) who also distribute grant funds to ensure that the Council is aligned to these in order to reduce the bureaucracy for community organisations who are applying for several grant strands.</p>	<p style="text-align: center;">●</p> <p>Medium</p>

Ref.	Audit Findings	Risk	Recommendations	Priority
	<p>funding they may be eligible for.</p> <p>Furthermore, the current grants system may be difficult for organisations to navigate, and lead to duplication of effort and information required to demonstrate their eligibility. In turn, this may preclude eligible organisations from applying for Council funds.</p>			
5.	<p>Grant Monitoring</p> <p>In order to ensure that Council funds are being used in line with terms and conditions of the grant award, the grant-related activities of the organisation should be monitored by the Council.</p> <p><u>Main Grants Programme</u></p> <p>Internal Audit noted that those organisations which are awarded Voluntary Organisation Support Grant are required to send in monitoring reports which outline how they are meeting what they set out in their application form. It is acknowledged however that in 2020, due to the Covid 19 pandemic, a different approach was required and instead of reports, the Community Development Officer and Communities Manager instead asked for a quarterly summary of what had been achieved and what would be undertaken moving forward. In addition,</p>	<p>Grants awarded may not be spent in line with funding agreements which may result in the grant recipient not providing value for money in the delivery of its services and/or failing to achieve its objectives.</p> <p>Lack of direct monitoring may lead to failure to detect and/or deter fraud/misuse of Council funds due to lack of verification of spend, leading to financial loss and/or reputational damage to the council.</p>	<p>A risk assessment of grants awarded should be undertaken to determine the level of monitoring required, which will ensure a consistent approach across grant recipients, proportionate to the size of grant awarded and within the Council's risk appetite to provide transparency in the approach taken. This should include any one-off grants approved outside of the main grants programme.</p> <p>A programme of monitoring should then be scheduled accordingly with evidence of monitoring retained. The monitoring programme should be consistent across the grant recipients and demonstrate how the original objectives outlined in the grant application have been met.</p> <p>Where applicable and appropriate, funds should only be released on</p>	<p>● Medium</p>

Ref.	Audit Findings	Risk	Recommendations	Priority
	<p>all the VSO recipients were met via Teams to discuss monitoring for the coming year.</p> <p>The small Sports and Leisure and Cultural Grant payments (max. £500, therefore low risk) are issued before the invoice has been received. It is understood that this has historically been because some of the groups are unable to purchase equipment until funding is received.</p> <p>Other grant types (see Table 1) should be paid on receipt of invoices although audit testing identified some occasions where funds were released prior to invoices being received.</p> <p><u>Cabinet Approved One Off Grants</u></p> <p>Fairycroft Arts and Media centre - it is understood that the Council has regular contact with the Centre and there was a review meeting in 2019. A more formal review was planned in 2020/21 but was impacted by the pandemic and the approach will be reconsidered during 2021.</p> <p>Carver Barracks – monitoring and reporting arrangements are outlined in the Funding Agreement. Internal Audit noted that at this stage of the project development, the Chief Executive and the Leader meet with the Army on a quarterly basis and this project is an agenda item;</p>		<p>receipt of invoices for relevant grants.</p>	

Ref.	Audit Findings	Risk	Recommendations	Priority
	<p>updates are also received as applicable. It is understood that the longstop date expired in March 2021 due to project delays, which was reported to and extended by Cabinet for a further 9 months (to 31 Dec 2021).</p>			
6.	<p><u>Reporting and Transparency</u></p> <p>In line with the Local Government Transparency Code 2015, local authorities must publish details of all grants to voluntary, community and social enterprise organisations. This can be achieved by either specifically identifying relevant transactions within published data on expenditure over £500 or by publishing a separate list or register.</p> <p>It is noted that the Council has published data relating to seven of its main grants' programmes, however, this has not been updated since 2018-19. Also, other grants and awards to community organisations made by other areas in the Council are not listed on this page.</p> <p>It may be beneficial in addition to the statutory transparency reporting required, for a wider report on the Council's grant funding to be produced annually to enhance the transparency and provide oversight of how Council funding to community organisations is being utilised,</p>	<p>Failure to publish data relating to grant awards may lead to breach of the Local Government Transparency Code and reputational damage.</p>	<p>The Council should publish its grants data annually in line with the Local Government Transparency Code requirements. It should be ensured that this includes all cross-Council grant awards made to community organisations.</p> <p>An annual report should be produced outlining how Council funding to community organisations is being utilised, and how this is supporting its strategic objectives. This could also include monitoring outcomes. GAP Committee may be the appropriate Committee for this to be reported to.</p>	<p>● Medium</p>

Ref.	Audit Findings	Risk	Recommendations	Priority
	and how this is supporting its strategic objectives.			

TABLE 1: Analysis of Grants Payments/Schemes

	Responsibility	Grant Name	Indiv. Grant Value	Budget 2020/21	Total Expenditure 2020/21	Policy/ Guidance Notes	Monitoring Requirements
MAIN GRANTS PROGRAMMES							
1.	Community Development Officer	Voluntary Organisation Support Grant	£1,000 to £155,000	£330,000	£325,000	Under review	Quarterly Reports
2.	Community Development Officer	Large Sports Grant	£150,000 p/a	£150,000 (£450,000 over 3 years)	£0	✓	£50k tranches will be released when adequate proof of works received
3.	Community Development Officer	Community Project Grant Scheme	Up to £3,500	£110,000	£69,000	Under review	Paid on invoice
4.	Community Development Officer	Ward Councillor's Initiative	Up to £2,000	£78,000	£81,000 <i>(variance due to c/fwd of unspent funds – not a budget overspend)</i>	✓	Paid on invoice
5.	Community Safety	Youth Grants	Up to £5,000	£51,500	£41,000	✓	Direct reporting back to YIWG by attending meetings or project visits
6.	Community Development Officer	Leisure and Cultural Grant	Up to £500	£12,250	£2,700	✓	Grant paid prior to receipt of invoice, due to groups being unable to purchase equipment until after funding is received
7.	Community Development Officer	Sports Grant	Up to £500			✓	

	Responsibility	Grant Name	Indiv. Grant Value	Budget 2020/21	Total Expenditure 2020/21	Policy/ Guidance Notes	Monitoring Requirements
8.	Community Development Officer	Transport Provision for Young People	£400	£5,160	£65	✓	Paid on invoice
CONTINGENCY							
9.	Community Development Officer	Contingency VS		£1,666	See Dunmow Museum Society		Contingency Fund
ANNUAL HISTORICAL GRANTS							
10.	Community Development Officer	Thaxted Festival	Annual Payment £3,000	£3,000	£0 (due to Pandemic)	Unknown	Paid on receipt of invoice.
11.	Community Development Officer	Dunmow Museum Society	Annual Payment £3,500	£3,500	£3,500 (£640 - Contingency)	Unknown	Paid on receipt of org request
12.	Community Development Officer	Great Dunmow Maltings Preservation Trust	Annual Payment £4,000	£4,000	£4,000	Unknown	Update on funding from organisation
13.	AD	Thaxted Guildhall	Annual Payment c.£6,500	£6,460	£6,460	Unknown	Paid on receipt of org request
			TOTAL	£755,536	£532,725		

INDIVIDUAL CABINET APPROVED GRANTS

14.	Carver Barracks Running Track	£500,000	Cabinet approved the one-off grant in July 2017 from SIF, which was paid in full as match funding. A funding agreement was put in place between the Council and Defence Infrastructure Organisation. The Chief Executive and the Leader meet with the Army on a quarterly basis and this project is an agenda item, updates are also received as applicable. The longstop date expired in March 2021 due to project delays, which was reported to and extended by Cabinet for a further 9 months (to 31 Dec 2021).
15.	Faircroft Arts & Media Centre	£80,000	Cabinet approved the one-off grant in May 2016, which was paid in full. The Cabinet report outlined the terms and conditions of funding. The Council has regular contact with the Centre; there was a review meeting in 2019. A more formal review was planned in 2020/21 but was impacted by the pandemic and the approach will be reconsidered during 2021.
16.	Harlow College	£300,000	Cabinet approved the one-off grant in October 2017, which was paid in full in March 2018. The fund went towards the overall costs of building and equipping the new college at Stansted Airport. The Council were advised when it was completed and opened. Council received reports of the number of students from UDC attending when applications first opened for the first and second year it operated.

OTHER

17.	Saffron Walden Pig Market Charity	As outlined in the Council's Annual Statement of Accounts, the Council is the sole trustee. The Charity owns a proportion of a public pay and display car park and their income is derived from this asset. The Car Park is run by the North Essex Parking Partnership on behalf of the Council and the Charity receives a 19.86% share of the net income. The Charity distributes the income it receives by way of grants to charities that work in the Saffron Walden area. The last two years grant distributions have been to Citizens Advice Bureau. The fund is subject to a separate independent examination.
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Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit shall endeavour to plan its work so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, the examinations of Internal Audit should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless Internal Audit is requested to carry out a special investigation for such activities in a particular area.

Limitations inherent to the internal auditor's work

Internal Audit work has been performed subject to the limitations outlined below:

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Historic evaluation of effectiveness may not be relevant to future periods due to the risk that: The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or the degree of compliance with policies and procedures may deteriorate.