Causeway Coast & Glens Borough Council

Internal Audit Report
Grant Funding

June 2017
Final

MOORE STEPHENS

INTERNAL AUDIT REPORT

Grant Funding

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2017/18. This report summarises the findings arising from a review of grant funding which was allocated 10 days.

Through our audit we found the following examples of good practice:

- The centralised Funding Unit has enabled standardisation of approach in the application and assessment of grant funding, which supports an equitable and transparent approach. The Funding Unit also continuously reviews the operation of the grant programmes and seeks to revise application processes where appropriate to ensure that the process is streamlined for both Council and applicants
- Clear guidance notes are prepared for each funding programme and published to stakeholders. Guidance notes clearly state the criteria against which applications will be assessed and the criteria for eligibility of costs
- Records of applications, assessments and verification of claims are well maintained by the Funding Unit and through the online hub
- The Funding Unit intends to move to a more risk-based approach for verification of expenditure, in accordance with the principles of the Code of Practice for Reducing Bureaucracy in Grant Funding to the Voluntary and Community Sector.

Some areas (Priority 2) where controls could be enhanced were noted during our review:

- When reviewing assessment scoring for the Community Development Support and Social Inclusion Support grant programmes, we found that there were no, or insufficient, comments recorded against each score to justify the score given. Scoring indicators have been developed to guide assessment panels, but we noted that the same indicator will cover 2 potential scores. Insufficient narrative can reduce transparency when reviewing the process or when comparing one application against another and present reputational risk for Council

- We noted that in the 2016/17 and 2017/18 applications for Community Development Support, the Leisure and Development Committee took a decision to grant one group significantly more funding than the maximum available under the grant programme (£9k and £10k respectively, compared with the maximum £2k available under the programme). There is a risk that this sets a precedent for other applications and a reputational risk if there is a perception that the grant policy is not adhered to

The following table summarises the total number of findings/recommendations from our audit:

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be no or inadequate funding policies in place, leading to a lack of transparency in the grant funding award process and potential reputational damage to the Council	-	-	-
Assessment procedures may not be applied in relation to the provision of grant funding, leading to ineligible organisations receiving funding from the Council, or funding for ineligible costs being provided by Council	-	2	-
Proportionality may not be applied leading to inefficient use of Council staff time and resources	-	-	-
Funding may be released without appropriate vouching and verification of costs leading to ineligible expenditure being paid by the Council	-	-	1
Total recommendations made	**-**	**2**	**1**

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory	Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives

Points for the attention of Management
In addition to the recommendations noted above we have identified two system enhancements during the course of the audit which do not form part of our formal findings, but may help enhance the existing controls. These are detailed at Appendix III.

Table of Contents

Auditor:	Camille McDermott / Steven Lindsay
Distribution:	Chief Executive Director of Corporate Services Director of Leisure and Development Funding Unit Manager Audit Committee June 2017

Audit progress	Date
Audit commenced	15 May 2017
Draft Report issued to senior management for response	6 June 2017
Responses Received	4 July 2017
Responses Agreed	14 August 2017 (Director sign-off)
Report Issued	14 August 2017

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

1   Objective

The areas for inclusion in the scope of the audit were determined through discussion with the Funding Unit Manager. The scope of this audit was to review the arrangements in place within the Council in relation to Grant Funding, focusing on the main risks associated with:

- Funding policies
- Application assessment
- Proportionality
- Verification of claims.

Our testing focused on grant procedures and applications in relation to the following funding programmes:

- Community Development Support 2016/17 and 2017/18
- Social Inclusion Support 2016/17 and 2017/18
- Capital Grants 2016/17 and 2017/18.

2   Background

The Council offers funding to facilitate activities which not only develop and promote the borough but aim to assist those who reside there. Activities funded must be fully consistent with the aims of the Council's Corporate Strategy 2015-2019 and its mission statement: *"Improve the quality of life and wellbeing for all of our citizens and visitors".*

The Council has a central Funding Unit within the Directorate of Leisure and Development. One of the Strategic Aims of the service is the management and administration of Council's grant funding. The Funding Unit also manages and maintains the Council's online Funding Hub. Details of all available grants (open and closed), guidance documents and relevant Council contact details (telephone and e-mail) are available on the online Funding Hub. The Funding Unit also maintains a grant help e-mail.

The Council is committed to distributing available funding efficiently and effectively under a variety of categories including community support and development, community festivals, tourism and sporting events, arts bursaries, etc. The grants are open to not-for-profit, constituted groups to deliver a wide range of activities and projects that benefit the Council area and bursaries are available for individuals undergoing training in the arts. The total amount budgeted for grant aid and funding to other bodies in 2017/18 is circa. £1m.

Council operates in line with government accounting requirements and guidance provided by the Department for Finance (NI) and the Department for Communities (NI). There are three main principles in government accounting that funding bodies should endeavour to meet:

- Regularity: ensuring that funds are awarded and used only for authorised purposes;
- Propriety: ensuring that funds are awarded and used fairly and free from undue influence;
- Value for money: the optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement. In other words, getting the best possible outcome from any given level of input. This does not mean 'cheapest'.

In deciding what specific rules to apply to individual funding streams, and to maximise value for money, funding bodies should consider proportionality ie rules about controls over payments; information requirements; monitoring and evaluation; and external inspection and audit should always be proportional to the level of and risk to the funds involved. One of the main guidance documents provided by the Northern Ireland Departments in recent years is the *Code of Practice for Reducing Bureaucracy in Grant Funding to the Voluntary and Community Sector* which provides clear principles to be applied by funders to ensure better proportionality.

3 Risks

The risks identified by Internal Audit relating to grant funding and agreed with management are as follows:

1. There may be no or inadequate funding policies in place, leading to a lack of transparency in the grant funding award process and potential reputational damage to the Council
2. Assessment procedures may not be applied in relation to the provision of grant funding, leading to ineligible organisations receiving funding from the Council, or funding for ineligible costs being provided by Council
3. Proportionality may not be applied leading to inefficient use of Council staff time and resources
4. Funding may be released without appropriate vouching and verification of costs leading to ineligible expenditure being paid by the Council.

4 Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council and specifically within the case study funding programmes
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Funding Unit Manager
Verification Officer
Funding Unit Officers
Community Development Manager

5 Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

5.1 Risk 1 – Funding Policies

We have no findings or recommendations to make against this risk area.

5.2 Risk 2 – Assessment of Grant Applications

ISSUE 1 – *Compliance Issue – Assessment of Applications*
a) Observation- Declarations of no conflict of interest are not formally recorded for assessment panels. When reviewing assessment scoring for the Community Development Support and Social Inclusion Support grant programmes, we found that there were no, or insufficient, comments recorded against each score to justify the score given. Scoring indicators have been developed to guide assessment panels, but we noted that the same indicator will cover 2 potential scores and the lack of narrative makes it difficult to determine why one score was given over another.
b) Implication- Insufficient narrative to justify a score given makes feedback to the applicant more difficult and reduces transparency when reviewing the process or when comparing one application against another. This leads to a higher level of reputational risk exposure for Council.
c) Priority Rating- 2
d) Recommendation- Those involved in assessing funding applications should ensure that declarations regarding any conflict of interest are recorded for all assessment panels. Assessment panels should also ensure that sufficient narrative is recorded to justify assessment scores given and consideration should also be given to revising the scoring indicators to be from 0-5 to provide greater clarity in scoring.
e) Management Response- Agreed – All future assessment panels will be required to complete and sign CoI declarations. The Community development team have been informed that they must complete full assessment notes and record the same against

each score. The Funding Unit will oversee this process with immediate effect and will participate in all assessment panels for the 2018-19 grant programmes to ensure assessment panels comply.

Scoring indicators of 0-5 will be used for all future advertised programmes and guidance notes will be changed to inform applicants of this. All 2018-19 grant programmes will reflect this change accordingly.

f) Responsible Officer & Implementation Date-
Funding Unit Manager
Full implementation in December 2017 for the 2018-19 Grant Funding Programmes

ISSUE 2 – *Compliance issue – Grants outside the Policy Framework*
a) Observation- We noted that in the 2016/17 and 2017/18 applications for Community Development Support, the Leisure and Development Committee took a decision to grant one group significantly more funding than the maximum available under the grant programme (£9k and £10k respectively, compared with the maximum £2k available under the programme). This grant was made following a request by the group, provision of a report regarding the matter by officers to the Committee and discussion and approval by the Committee and Council.
b) Implication- Where funding provided to community and voluntary sector groups in excess of the maximum available under the grant funding programmes, there is a risk that this sets a precedent for other applications (leading to an uncoordinated approach to grant funding) and a significant reputational risk if there is a perception that the grant policy is not adhered to or there is a lack of equity in decisions being made.
c) Priority Rating- 2
d) Recommendation- In instances where a grant is being considered above the maximum available for the grant scheme, Council should ensure that due consideration has been given to (and is well documented): whether alternative mechanisms for providing financial support would be more appropriate; equality assessment of the proposed decision; fit with Council's broader strategic priorities; and impact on the funding programme and on other priorities in taking the proposed decision.
e) Management Response- A revised Community Development grant programme is being developed for 2018-19 which will allow applications in excess of £2k from specific organisation types. This will ensure transparency, fairness and equality throughout the application and assessment process. To be implemented in December 2017 for the 2018-19 grant programmes
f) Responsible Officer & Implementation Date- Funding Unit Manager responsible for ensuring all grant programmes are developed and ready for December 2017 opening. Community Development Manager, will develop the revised Community Development Programme – to be ready for end of September 2017.

5.3 Risk 3 – Proportionality

We have no findings or recommendations to make against this risk area.

5.4 Risk 4 – Verification of Expenditure

ISSUE 3 – *Control design issue – Allocation of Eligible Expenditure*
a) Observation- We found from our testing of the Social Inclusion Support and Community Development Support programme claims that an extensive amount of checking of the claim forms was performed by the Funding Unit's Verification Officers to ensure the amount paid was within the criteria of the grant (eg up to 75% or 85% of total project costs). We found that the process appeared overly burdensome however as officers allocate different percentages to each item of expenditure to reach the 85% total and there was no rationale to the different percentages applied.
b) Implication- The current process may not be the best used of staff resources and time, given that there is a maximum percentage of total project costs that may be applied to the grant.
c) Priority Rating- 3
d) Recommendation- The process for verification of expenditure should be reviewed and consideration should be given to limiting checking of a claim to a check for eligibility of expenditure and then applying the maximum percentage available to the total eligible cost (up to the maximum amount which can be paid).
e) Management Response- **Agreed** – Instead of different percentages being allocated to invoices to achieve the amount awarded, 100% vouching of all invoices will be carried out, the Vouching staff will then recommend the percentage to be paid as determined in the letter of offer.
f) Responsible Officer & Implementation Date- Verification Officer – implementation in July 2017

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Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance
Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance
Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance
Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

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Appendix II: Summary of Key Controls Reviewed

Grant Funding

Risk	Key controls
There are no or inadequate funding policies in place, leading to a lack of transparency in the grant funding award process and potential reputational damage to the Council	• The Council has a clear grant funding policy that covers the full range of organisations funded • The funding policy has been clearly communicated to external organisations and stakeholders • The funding policy is aligned to the Council's Corporate Plan • The funding policy sets out clear procedures dealing with the call for funding applications, assessment of applications, award of funding (including where funding is provided to bodies without going through an open call), provision of funding and verification of funding claims
Assessment procedures are not applied in relation to the provision of grant funding, leading to ineligible organisations receiving funding from the Council, or funding for ineligible costs being provided by Council	• Clear criteria have been developed for the provision of grants or other Council funding (including separate criteria for each type of funding if appropriate) • Funding is provided by the Council based on an application and in line with Council's funding policy • Where funding is provided by the Council not as part of an open call process, there is a clear, approved rationale as to why this is so – this is subject to an audit recommendation • Appropriate documentation to support the application (such as financial statements, child protection policy, equal opportunity policy and insurance) is submitted by applicants in line with the funding policy • Award criteria checklists are used for assessing applications and only those eligible are recommended to receiving funding – this is subject to an audit recommendation • The recommendation to provide funding to an organisation is reviewed by elected members before being decided upon • Successful and unsuccessful applicants for funding are notified of the Council's decision in a timely manner • A letter of offer is issued to successful applicants and the successful applicant agrees to the terms and conditions of the funding • A letter of offer for any Capital Grant awarded must include the terms of any Council charge or clawback over the asset

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Risk	Key controls
Proportionality is not applied leading to inefficient use of Council staff time and resources.	• The Funding Unit is aware of the Code of Practice for Reducing Bureaucracy in Grant Funding to the Voluntary and Community Sector and will move to a risk-based verification approach over the next year or two. The current process of 100% verification appears adequate until such time
Funding is released without appropriate vouching and verification of costs leading to ineligible expenditure being paid by the Council	• Funding is paid based on grant claims submitted by the funded body • Appropriate claim reminders are issued and only those claims that are submitted on time are processed for payment • Invoices, receipts and bank statements are made available to the Council as appropriate • Claims are reviewed to ensure that the funding is spent for the purpose it was originally applied for • Claims are approved by an appropriate person, with sufficient delegated authority, within the Council • Only costs occurring within the appropriate timeframe are considered for payment • Procedures are in place to allow the Council to hold back payment of a grant or reclaim a grant, in whole or part, if a funded body fails to adhere to the terms and conditions set within the letter of offer, or it is discovered that the application or supporting documents submitted gave false or misleading information • The claim verification and approval process is fully documented

Appendix III: Points for the Attention of Management

Grant Criteria – Financial Statements
One of the criteria of who can apply to the Social Inclusion Support and Community Development Support programmes is that the group must be able to produce independently audited or certified annual accounts (uploaded with the application). We found that many groups who submitted to these programmes provided copies of handwritten income and expenditure summaries (some of which were signed by the Treasurer of the group). We noted that it was likely that none of these groups would be required to produce formal certified financial statements as they were unincorporated bodies. For low value grant programmes, consideration should be given to revising the criteria that funded groups must be able to provide independently-audited or certified annual accounts. Where groups provide simple income and expenditure statements, Council should ensure that these are signed by the Treasurer or other office-bearer.
Management response: For the 2018-19 grant programmes the guidance notes and online hub will be changed to reflect the revised requirement. Where income and expenditure reports are submitted they will be checked for certifying signatures from relevant office bearers. To be implemented for all future grant programmes including the 2018-19 programmes

Grant Calculations & Verification of Expenditure
The maximum grant that can be paid under the Social Inclusion Support programme is 85% of project costs, to a maximum of £500. We found that one of the 10 applications in 2016/17 sampled for audit had applied for £575 which was also the total of their project costs. The grant provided was £500, 87% of the total costs. Whilst this was a minor error in terms of value, there is a risk that groups may feel that criteria are not being applied fairly if the maximum limit is not applied consistently and staff should therefore ensure that the maximum percentages are cross-checked. We also found one instance (of the 10 applications reviewed) under the Social Inclusion Support programme in 2016/17, where the bank statements supplied only provided evidence of payment for £100 of the £500 claimed. As the Council moves to a more risk-based verification of expenditure (rather than 100% vouching), it is important that the vouching checks carried out are adequate. Verification Officers should therefore ensure that bank statements are matched to all invoices and receipts listed on the Project Invoice Summary submitted with the grant claim.
Management response: **Agreed –** when verifying any claim it will be cross checked against the original application so that the grant provided does not exceed the maximum percentage awarded. **Agreed –** for all claims it is essential that bank statements are provided and they match to all invoices and receipts listed on the project Invoice Summary, these payments should be highlighted clearly by the Verification Officer on each statement therefore limiting risk of inaccurate verification.