
APPENDIX 2 COMMUNITY TRANSPORT UPDATE REPORT

Internal Audit Report

Grants to External Organisations Policy Compliance

Governance Opinion

Adequacy of System	Limited
Compliance	Satisfactory
Organisational Impact	Minor

Report Issued	11/04/19
Follow Up Due	1/06/19
Audit Committee Schedule	28/05/19

Executive Summary

1 Background

- 1.1 As part of the 2018/19 Audit Plan an audit was undertaken of grants awarded to voluntary bodies. Cambridgeshire County Council offers multiple grants to external organisations every year. These grants vary in size and scope, but all should represent an investment in the community. All grants should be in line with the Council's core objectives and aim to improve the lives of Cambridgeshire citizens and communities.
- 1.2 Grants paid by the Council must be compliant with the Grants to External Organisations Policy, Cambridgeshire County Council (CCC) Finance Regulations regarding authorisation levels and European Union (EU) State Aid requirements. The Grants to External Organisations Policy is a new policy which came into effect in July 2018. In conjunction with this the Chief Executive requested that Internal Audit undertake a review of grants to external organisations to check compliance with the new policy. The Chief Executive has also asked the Council's Senior Management Team to compile a list of grants issued by their services.
- 1.3 In addition, The Local Government Transparency Code 2015 requires Local Authorities to publish details of all grants to voluntary, community and social enterprise organisations. (See Appendix 2 for further detail.)

2 Audit Approach / Scope

- 2.1 The Control Objectives of this audit are to provide assurance that:
 - The grants awarded comply with the Grants to External Organisations Policy, CCC Finance Regulations regarding authorisation levels and EU State Aid requirements.
 - There is grants information available in line with the Local Government Transparency Code.
- 2.2 The original intention was to select a sample of 8 grants from the list of transactions recorded on the financial system under account code E5000 (Grants to Voluntary Organisations). The initial sample selected using this list were found to be contracts rather than grants. As a result there was further scrutiny of the E5000 general ledger list before the sample was reselected. Any suppliers on the 'grants' account code but also listed in the contracts register were excluded, as Internal Audit understood that suppliers with a contract would not also be receiving a grant separately. Relevant budget holders then confirmed the final selection were grants.

3 Key Risks

- 3.1 Non-compliance with key controls in the Grants to External Organisations Policy may create a risk that the Council does not achieve value for money in its award for grant

funding, or that the Councils CCC Finance Regulations or EU State Aid requirements are breached.

3.2 Non-compliance with the Local Government Transparency Code.

Internal Audit Opinion and Main Conclusions and Recommendations

4 Main Conclusions

Based on the completion of our fieldwork we are giving limited assurance over the adequacy of complying with the Local Government Transparency Code. This is because there is:

- No grants register
- Directorates were unable to supply comprehensive lists of grants
- Lack of understanding of what constitutes a grant among budget holders
- Mis-coding means that grant information cannot be reliably established from the financial system

Internal Audit is giving satisfactory assurance over the compliance with the Grants to External Organisations Policy. There are control weaknesses and cases of noncompliance in a number of areas that are summarised in more detail below.

4.1 Grants register

The Council is not complying with the Local Government Transparency Code 2015 requirement to publish details of all grants to voluntary, community and social enterprise organisations. This detail can be published either in a grants register or by tagging the information in the published financial transactions. In light of the coding issues discovered within the financial transactions there is currently no reliable way of finding details of the grants awarded. Once the coding has been corrected there is still additional information required of each grant that is not possible to obtain from the financial ledger.

Recommendation:

Internal Audit recommend that a grants register is compiled and published online containing the following information:

- Grant start and end date
- service which awarded the grant and contact responsible for the grant
- beneficiary (including company/charity number where applicable)
- summary of the purpose of the grant and the Council priorities to which the grant relates
- amount of the grant to be awarded

Recommendation:

The Grants to External Organisations Policy is updated to reflect the need to update the grants register with each new grant awarded.

4.2 Mis-coding of grant expenditure

Internal Audit have identified that grant expenditure is not being correctly coded to the grant account code E5000. The vast majority of transactions on this code relate to expenditure made through contracts for services, rather than actual grant expenditure. Of the £6.18m expenditure on the E5000 account code between April and December 2018,¹ analysis by Internal Audit indicates that at least £5.92m (95.8%) appears to be contract expenditure which has incorrectly been coded to the grants account code.

The mis-coding is not limited to non-grant-related expenditure being coded to the grants account code; the review has also identified £275,871 grant expenditure which has been assigned to other account codes. For example, the grant awards made through the Innovate and Cultivate fund are coded to D8100 (Joint Partnership Funding). It should be noted that due to the difficulties experienced in seeking to identify grant expenditure, assurance cannot be provided that Internal Audit has identified all actual grant expenditure outside the E5000 account code.

This issue has been addressed in the Internal Audit Report on 'Accuracy of Account Coding on the Financial Ledger'.

Recommendation (as made in Internal Audit Report on 'Accuracy of Account Coding on the Financial Ledger'):

Finance team should conduct a data cleanse of the E5000 account codes, to re-code expenditure to the correct account codes. This piece of work should then be expanded to include the moving of grant expenditure on other codes to E5000.

- 4.3 Budget holders are responsible for managing the financial transactions on a cost centre, and must carry out this responsibility in line with the Council's Scheme of Financial Management and Budget Holder Information Pack. The Internal Audit Report on 'Accuracy of Account Coding on the Financial Ledger' notes that there is no explanation of the use of account codes and their importance, or the need to ensure that transactions are coded correctly. A full list of account codes is not provided to budget holders, and

¹ N.B. this analysis has excluded year-end accrual journals which have the effect of transferring expenditure from one financial year into another. If accruals were included, this would have the effect of reducing in-year expenditure on E5000 between April and December 2018 to £5.43m. Subsequent to this review, Finance have confirmed that some accrual journals had the effect of correcting the coding on certain transactions, and as a result the true level of miscoding is slightly lower; however it remains significant.

there is no guidance on how different types of expenditure should be classified. This report recommended that the Scheme of Financial Management and Budget Holder Guidance documents be updated to include reference to the requirement that transactions be assigned to the correct account code. The following recommendation supports this recommendation.

Recommendation:

Internal Audit to update the Grants to External Organisations Policy to explicitly state that grant expenditure be coded to E5000.

- 4.4 A contributory factor in the mis-coding of grant expenditure may relate to a lack of understanding about the definition of what constitutes a grant.

Recommendation:

The definition of a grant needs to be advertised in conjunction with the appropriate use of E5000. The CamWeb information about grants needs to have the definition of a grant on the web page and not just in the policy document.

- 4.5 Since completing the sample testing for this audit, Internal Audit have found further expenditure of £1.04 million on account code D7005 'Grants'. Initial investigation of this expenditure seems to show that a high proportion are not grants as defined in the Grants to Voluntary Organisations Policy and should probably be classified as 'grants and support for service users' (account code F1115). It is, however, beyond the scope of this audit to carry out further analysis of these payments.

This further highlights the problems there are in relying on the financial ledger to identify grants. There is the additional risk that since the Council publishes all items of expenditure over £500 online including analysis of the 'expense type', based on the account code used, interested external parties who access this data to conduct their own analysis may reach incorrect conclusions regarding Cambridgeshire County Council expenditure. This has the potential to create reputational damage to the authority.

Recommendation:

Finance team to clarify or consolidate the use of the grants account codes and communicate this with budget holders:

- E5000 Grants to Voluntary Bodies
- F1115 Grants and Support for other Service Users
- D7005 Grants

4.6 Compliance with the Grants to External Organisations Policy

There were mixed findings in relation to compliance with the Grants to External Organisations Policy. Of the sample of eight grants, five grants complied with the policy and three did not.

Compliant Grants:

- Two grants awarded through the Community Reach Fund. Total value £1,500.
- Two grants awarded through the Innovate and Cultivate Fund. Total value £59,987.
- Learning and Development grant for the Homeless. Total value £90,438.

Partially Compliant Grants:

There are two grants which have limited paperwork in place, have been awarded for several years and the paperwork that is available is not all up to date. Neither of these comply fully with the policy.

- Grant to provide day opportunities for people with disabilities. Total value £9,894.
- Grant to provide safe off-road riding and instruction to high risk teenagers. Total value £6,000.

Non-compliant Grant:

The final grant in the sample had no paperwork in place except for a Service Level Agreement from 2005. This does not comply with the policy and it appears that for the last ten years at least there have been annual payments of £24,808 with no evidence of monitoring or a signed agreement.

The risk with these grants that do not comply fully is that the Council is not receiving value for money and is potentially exposed to reputational damage without clear agreements being in place.

Internal Audit have contacted the people responsible for the non-compliant grants in order to advise what changes need to be made to ensure compliance with the Grants to External Organisations Policy.

Recommendation:

All grants continuing into 2019/20 (not just those in the sample) not awarded by Innovate and Cultivate Fund or Community Reach Fund and older than two years to be re-evaluated by the services to establish how the grant was advertised and whether the organisation have supplied sufficient information and that an up to date signed grant agreement is in place.

Where insufficient information is on file, organisations need to sign a grant agreement and supply the key documents to comply with the Grants to External Organisations Policy.

Detailed agreed actions are listed within the Management Action Plan (MAP) at pages 9 to 11 of this report.

MANAGEMENT ACTION PLAN

The Agreed Actions are categorised on the following basis:

Likelihood	H	S	I	E	Essential - Action is imperative to ensure that the objectives for the area under review are met. Important - Requires action to avoid exposure to significant risks in achieving objectives for the area under review. Standard - Action recommended to enhance control or improve operational efficiency.
	M	S	I	E	
	L	S	I	E	
		L	M	H	Impact

Ref.	Issues & Risks (Precis)	Agreed Action	Management Comments	Manager Responsible & Target Date
1.	<p>Register of grants</p> <p>The Local Government Transparency Code 2015 requires Local authorities to publish details of all grants to voluntary, community and social enterprise organisations.</p> <p>This can be achieved by either: tagging and hence specifically identifying transactions which relate to voluntary, community and social enterprise organisations within published data on expenditure over £500 or published procurement information, or by publishing a separate list or register.</p>	<p>Important</p> <p>Recommendation: Internal Audit recommend that the FOI team compile and maintain a grant register containing the following information:</p> <ul style="list-style-type: none"> - Grant start and end date - service which awarded the grant and contact responsible for the grant - beneficiary (including company/charity number where applicable) - summary of the purpose of the grant and the Council priorities to which the grant relates - amount of the grant to be awarded <p>Recommendation: Grants to External Organisations Policy to be updated to reflect the need to contact the FOI team in order to update the grants register with each new grant awarded.</p>	<p>Following meetings, it has been agreed that the Finance team will work to put together an initial grants awarded register. Dan Horrex and his team will then be responsible for maintaining this.</p> <p>Accepted.</p>	<p>Data Protection Manager, Corporate Information team and Head of Finance</p> <p>COMPLETE – Grants register has been created covering all Directorates as of 10th May 2019.</p> <p>Audit & Risk Mgr</p> <p>COMPLETE – updated and advertised to staff on 10th May 2019</p>

Ref.	Issues & Risks (Precis)	Agreed Action	Management Comments	Manager Responsible & Target Date
2.	<p>Grant Coding</p> <p>Budget holders are responsible for managing the financial transactions on a cost centre, and must carry out this responsibility in line with the Council's Scheme of Financial Management and Budget Holder Information Pack.</p> <p>Current guidance notes that Budget Holders should review their budget's transaction listings on a monthly basis to confirm transactions are "valid", and that Finance Staff can assist in resolving errors. A full list of account codes is not provided to budget holders, and there is no guidance on how different types of expenditure should be classified.</p> <p>In particular, there also seems to be a lack of clarity amongst budget holders about what constitutes a grant how this should be coded.</p>	<p>Important</p> <p>It has been recommended (in the 'Accuracy of Account Coding on the Financial Ledger' audit report) that the Scheme of Financial Management and Budget Holder Guidance be updated to include:</p> <ul style="list-style-type: none"> - Reference to the requirement that transactions be assigned to the correct account code; - A list of account codes should be made available to budget holders, with additional guidance on distinguishing similar types of expenditure (for instance, agency staff vs. consultancy vs. professional services costs). <p>Recommendation: Finance team should conduct a data cleanse of the E5000 account codes, to re-code expenditure to the correct account codes. This piece of work should then be expanded to include the moving of grant expenditure on other codes to E5000.</p> <p>Recommendation: Grants to External Organisations Policy to be updated to include guidance about coding expenditure to E5000.</p> <p>Recommendation: Finance team to clarify or consolidate the use of the grants account codes and communicate this with budget holders:</p> <ul style="list-style-type: none"> • E5000 Grants to Voluntary Bodies • F1115 Grants and Support for other Service Users • D7005 Grants 	<p>Agreed - Account code guidance has been produced and now forms part of the budget holder information pack.</p> <p>This has happened naturally due to the new financial year.</p> <p>Agreed.</p> <p>Account code guidance has now been produced and forms part of the budget holder information pack</p>	<p>Head of Finance</p> <p>COMPLETE – circulated to all budget holders on 10th May 19.</p> <p>Head of Finance</p> <p>COMPLETE</p> <p>Mairead Claydon, Audit Manager COMPLETE</p> <p>Head of Finance</p> <p>COMPLETE – circulated to all budget holders on 10th May 19.</p>

Ref.	Issues & Risks (Precis)	Agreed Action	Management Comments	Manager Responsible & Target Date
3.	<p>Review of grants awarded prior to the introduction of the grants policy and being re-awarded for 19/20</p> <p>Grants awarded prior to the grants policy and which are being re-awarded year on year need to be reviewed to ensure they comply with the policy.</p>	<p>Standard</p> <p>Recommendation: All grants (not just those in the sample) not awarded by Innovate and Cultivate Fund or Community Reach Fund and older than two years to be re-evaluated by the services to establish:</p> <ul style="list-style-type: none"> - how the grant was advertised and whether the organisation have supplied sufficient information. Where insufficient information is on file, organisations need to be asked to supply the key documents, in line with the Grants to External Organisations Policy, such as a grant agreements. 	<p>Agreed – Directors were reminded about the need for this to happen as part of the review and compilation of the new Grants Register.</p>	<p>Heads of Service</p> <p>COMPLETE</p>
4.	<p>Caresco Ltd grant</p> <p>This was originally a Service Level Agreement and there has been no corresponding paperwork to move to a grant. There appears to have been no signed agreement since 2005.</p> <p>The Internal Audit team are aware that the team identified as able to rectify the compliance issues are not the team originally involved with this grant</p>	<p>Essential</p> <p>Recommendation: Caresco grant to be re-examined to ensure that it is meeting the purposes set out in the original Service Level Agreement.</p> <p>There needs to be a grant agreement drawn up in line with the Grants to External Organisations Policy and action taken to ensure that that the grant is fully compliant</p>	<p>Agreed. The grant agreement has been produced and issued to the organisation. It is expected to be returned by the 17th May.</p>	<p>Commissioning Team (supported by Hunts Locality Team) (May 2019)</p>

Appendix 1 – Glossary / Definitions

The Local Government Transparency Code 2015 requires Local Authorities to:

Publish details of all grants to voluntary, community and social enterprise organisations. This can be achieved by either:

- *tagging and hence specifically identifying transactions which relate to voluntary, community and social enterprise organisations within published data on expenditure over £500 or published procurement information, or*
- *by publishing a separate list or register.*

For each identified grant, the following information must be published as a minimum:

- *date the grant was awarded*
- *time period for which the grant has been given*
- *local authority department which awarded the grant*
- *beneficiary*
- *beneficiary's registration number³⁶*
- *summary of the purpose of the grant, and*
- *amount.*

(Local Government Transparency Code 2015 Section 42-43)

Appendix 2 – Glossary / Definitions

There are three elements to consider when determining an assurance opinion as set out below.

1 Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems ‘police/ enforce’ good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

2 Compliance Assurance

Strong systems of control should enforce compliance whilst ensuring ‘ease of use’. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has identified that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

3 Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

4 Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found, as set out in the MAP.

For ease of reference, we have used a high/medium/low system to prioritise our recommendations, as follows:

E	Essential	I	Important	S	Standard
	<p>Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>		<p>Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>		<p>The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>

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