

CITY OF LONDON
CHAMBERLAIN'S DEPARTMENT
INTERNAL AUDIT SECTION



LONDON COUNCILS - GRANTS (2016-17)

FINAL REPORT

Date Issued: 3 August 2016

Issued to: Frank Smith, Director of Corporate Resources
Simon Courage, Head of Grants and Community Services
Katy Makepeace-Gray, Principal Grants Manager
David Sanni, Head of Financial Accounting



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Audit Fieldwork completed	11 May 2016
Draft Report Issued	26 May 2016
Management Response Received Agreeing Recommendations	12 July 2016
Final Report Issued	3 August 2016



SECTION A: EXECUTIVE SUMMARY

Introduction

1. The Grants Programme 2015-17 subsidises initiatives that aim to tackle homelessness, sexual and domestic violence, unemployment and support to voluntary organisations. It was approved by the Grants Committee in November 2014. The approved annual expenditure of the current grants programmes amount to £9,364,548.
2. This audit exercise:
 - Ascertained the adequacy of checks undertaken on grant funded applicants prior to grant awards which determine the organisations ability to deliver initiatives, including financial stability.
 - Determined whether monitoring arrangements are providing an adequate control of grant funded organisations progress against agreed milestones.
 - Examined the effectiveness of the processes for ensuring that projects demonstrate the achievement of outcomes.



Assurance Statement

Assurance Level	Description
Moderate Assurance	An adequate control framework is in place but there are weaknesses and/or a lack of compliance which may put some system objectives at risk.

Key Conclusions

3. Information was reviewed relating to grant funded projects within the grants data base system 'GIFTS'. In addition, discussions were held with the Principal Grants Manager and members of Grants Team to ascertain procedures over applications, monitoring, financial checking and value for money.
4. Based on sample testing and discussion with staff, this review concluded that, generally, there is a satisfactory level of control over: checking and assessing applications for funding; monitoring project progress to agreed outcomes; and assessing performance and the achievement of value for money. The general monitoring framework, in place, is sound, however, scope exists to improve the processes for checking the financial stability of organisations prior to and during funding.

Assessing Applications

5. A standard scoring manual and matrix exists which provides a comprehensive assessment of an organisations eligibility and financial stability to deliver the required initiatives.
6. Sample testing of four current projects (Ashiana Network, Galop, Thames Reach and Age Concern London) confirmed that they were assessed in accordance with the existing scoring manual and matrix. There is, however, scope for improving the processes for checking the financial stability of organisations. Currently, one year's audited accounts are requested on application, which is considered insufficient to assess the continued stability or solvency of an organisation. The process could be improved by requesting three years audited accounts. This will provide a good assessment of an organisations ability to continue as a 'going concern' and confidence to deliver the required initiatives.
(Recommendation 1)

Financial Stability During Funding

7. There are defined processes for carrying out financial checks on audited financial statements submitted by funded organisations during the funding

period. The processes are required to assess the financial stability of funded organisations and confirm the eligibility to continue funding payments. The arrangements are embedded in the Grants Team Manual under 'Due Diligence Checks' which highlights seven key financial areas for checking. It is understood from discussions with a member of the Grants Team that the annual checks are undertaken; however, they are not evidenced/recorded against the project or documented anywhere within the Grants database system 'GIFTS'.

(Recommendation 2)

8. Following the closure of Eaves Housing For Women charity in October 2015, the Grants Team undertook an assessment of the charity's financial statements over a five year period between 2010-2014. This resulted in six recommended additional checks to be performed in conjunction with the seven existing checks required under the annual due diligence process. The additional checks include;
 - assets and liabilities;
 - deficits;
 - loss of funds;
 - diminishing brought forward balances;
 - spending on designated funds; and
 - reducing reserves.
9. These issues were highlighted in Eaves' Chairman's Reports within the financial statements. As such, the reports should have raised concerns about the financial position of the charity much earlier (i.e. periods ending 2013 and 2014), had the checks been utilised, results properly documented and reported accordingly.
10. Audit examination of the six additional recommended checks (highlighted above in paragraph 8) indicated that three further checks would need to be added. These include checking decreasing investment performance, annual solvency checks and 'flagging up' organisations with consistent financial problems over a two year period. In addition, consideration should be given to providing financial accounting training for Grants Team staff e.g. how to read/interpret and analyse financial statements. **(Recommendation 3)**

Monitoring

11. There are satisfactory monitoring arrangements in place which provides adequate control over progress on grant funded projects against the agreed project milestones. These arrangements are clearly defined within the London Councils Grants Teams Manual v1.4 which requires the regular submission of quarterly and annual returns of project data and accounting information by funded organisations. Organisations are required to submit the above-mentioned documents and comply with the visiting protocols in accordance with terms and

conditions of their funding agreements.

12. There are satisfactory mechanisms in place for 'flagging up' areas due for monitoring and assessment. The Grants database system 'GIFTS' is programmed with set reminder dates for when quarterly database reports, quarterly and annual progress reports, audited accounts and visits are due from funded organisations.
13. Sample testing of the four organisations (highlighted above in paragraph 6) that are in receipt of four year funding (2013-17) identified evidence of annual project monitoring within the GIFTS database system.
14. It is understood that no monitoring visits were carried out for the majority of projects in the 2015 year due to changes in the quarterly monitoring processes. In November 2015, the Grants Committee agreed to proposed changes to the monitoring processes. This included a reduction in the number of visits from 2 to 1 per year due mainly to increased staff workloads. The changes were implemented in January 2016. The Head of Community Services stated that the number visits would be risk based dependent on a projects RAG score rating i.e. projects achieving a 'Green' RAG score will be visited less frequently. It is understood that a programme of visits will be carried out in 2016.

Achieving Outcomes

15. There are satisfactory processes in place for documenting and reporting agreed project targets and outcomes against the four priority areas (highlighted in paragraph 1). The outcomes include project delivery and borough outcomes including budget/funding expenditure.
16. Funded projects are RAG rated to determine performance (e.g. budget expenditure against projections), quality and compliance. The RAG rating scores are compiled from information obtained from quarterly and annual progress reports, budget and database reports and monitoring visits. The information is used for reporting performance to the Grants Committee. It is noted that at the end of the four year grants funding programme, a detailed performance report is submitted to the Grants Committee for all projects. A similar reporting exercise was carried for the previous five year funding programme (2007-2013).
17. The RAG ratings for the four projects (highlighted above) were examined. This confirmed that the projects were on target to achieve the required outcomes for the 2015/16 financial year. These projects were in the third year (2015/16) of the four year (2013-17) funding agreements. All four projects scored a 'green' rating for Quarter 11 (i.e. Oct-Dec 15).



18. With regard to the adequacy of the existing processes for demonstrating the achievement of value for money on projects, it is Audit's opinion that the quarterly RAG rating scores contributes to providing an adequate and continued assessment of project outcomes. Regular and thorough financial assessment and monitoring to ensure that projects maintain the ' Green' rag rate through the end of the funding term is a good indicator of that value for money will be obtained through the achievement of the process' objectives.

Recommendations	Red	Amber	Green	Total
Number Made:	0	3	0	3
Number Accepted:	0	3	0	3



SECTION B: AUDIT RECOMMENDATIONS

Assessing Applications

Priority	Issue	Risk
Amber	Currently, one year's audited accounts are requested on new funding applications.	The applicant is not financially viable and grant monies will be lost or services will not be provided if the company goes into insolvency.
<p>Recommendation 1:</p> <p>Three years audited financial statements should be requested on new funding applications.</p>		
<p>Management Response and Action Plan</p> <p>There are resource implications regarding the request for three sets of accounts at application stage (both in terms of officer time and IGAM upload fees per document). I would suggest that three sets of accounts are only requested for the top scoring bids that are likely to be recommended.</p> <p>Action: To include in the application guidance and scoring manual that an additional two sets of accounts will be sought for the highest scoring/recommended applications</p> <p>Responsibility: Principal Grants Manager/Head of Grants and Community Services</p> <p>Target Implementation Date: Summer 2016</p> <p>* Where recommendation not accepted indicate alternative action that will be taken to mitigate risk or reasoning for accepting risk exposure to be provided</p>		
Priority	Issue	Risk
Amber	The Due Diligence Checks performed on the annual audited financial statements submitted by funded organisations are not recorded.	Inappropriate payments are made without the proper supporting evidence.

Financial Stability During Funding

<p>Recommendation 2:</p> <p>The Due Diligence Checks performed on annual audited financial statements submitted by funded organisations should be recorded and logged against all projects in GIFTS.</p>		
<p>Management Response and Action Plan</p> <p>Officers record the fact that the checks have taken place; however, the checks are not recorded individually in one place.</p> <p>Action: To include the additional checks to the grants team log.</p> <p>Responsibility: Principal Grants Manager/Head of Grants and Community Services</p> <p>Target Implementation Date: January 2017 (the next date at which caseload accounts</p>		



are checked). This would be carried out on projects that are successful in the 2017-21 Programme, as the current programme ends 31 March 2017.

* Where recommendation not accepted indicate alternative action that will be taken to mitigate risk or reasoning for accepting risk exposure to be provided

Priority	Issue	Risk
Amber	The existing annual Due Diligence Checks on audited financial statements failed to identify key financial concerns within the audited statements presented by the Eaves Housing For Women charity for the 2012/13 and 2013/14 financial periods.	Grant monies will be lost or services will not be provided if the company goes into insolvency.

Recommendation 3:

The six proposed additional financial checks following the closure of Eaves Housing For Women charity should be included as part of the annual Due Diligence Checks as well as the additional three recommended audit checks (see Appendix 1)

Management Response and Action Plan

Officers have some concerns that adding additional checks might cover more resources than we have available for this process (checking accounts is just part of the monitoring process).

Action: To include the additional 9 checks and to review these to ensure they are all necessary after 12 months and how much resources they are involving (versus how much is available).

Responsibility: Principal Grants Manager/Head of Grants and Community Services
Target Implementation Date: January 2017

* Where recommendation not accepted indicate alternative action that will be taken to mitigate risk or reasoning for accepting risk exposure to be provided

APPENDIX 1: ADDITIONAL FINANCIAL CHECKS

Following the closure of Eaves Housing For Women in October 2015, the Grants Teams recommended six additional financial checks to the existing annual Due Diligence Checks on audited financial statements. The recommendations are summarised in a report 'Summary of Financial Position' as follows:

- A historical look at assets and liabilities over past financial years to see whether there is a downward trend in assets;
- Reviewing the accounts to see whether the organisation has lost any grant funding*;
- Whether the accounts are in deficit over financial periods;
- Whether balances** brought forward are diminishing;
- Whether restricted and unrestricted reserves are reducing over financial periods;
- And a review of the amounts being spent on designated funds.

Internal Audit comments and suggested additional checks as follows:

*this should include 'or is unable to attract other sources of funding'.

**this should state 'credit' balances.

Additional recommendations for inclusion:

- A review of investment performance to see whether this is decreasing consistently over a two year period;
- Solvency ratio tests to be conducted on all audited accounts received on application including accounts received during the funding period;
- Flag up and report any consistent deficits, decreasing reserves and investment performance, loss of funds and diminishing credit balances over a two year financial period; and
- Consider financial accounting training for all Grants Team staff i.e. how to read and interpret/analyse audited financial accounting statements.

APPENDIX 2: AUDIT DEFINITIONS AND RESPONSIBILITIES

Assurance levels

Category	Definition
Nil Assurance 'Dark Red'	There are fundamental weaknesses in the control environment which jeopardise the achievement of system objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited Assurance 'Red'	There are a number of significant control weaknesses and/or a lack of compliance which could put the achievement of system objectives at risk and result in error, fraud, loss or reputational damage.
Moderate Assurance 'Amber'	An adequate control framework is in place but there are weaknesses and/or a lack of compliance which may put some system objectives at risk.
Substantial Assurance 'Green'	There is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern.

Recommendation Categorisations

Priority	Definition	Timescale for taking action
Red - 1	A serious issue for the attention of senior management and reporting to the appropriate Committee Chairman. Action should be initiated immediately to manage risk to an acceptable level	Less than 1 month or more urgently as appropriate
Amber - 2	A key issue where management action is required to manage exposure to significant risks, action should be initiated quickly to mitigate the risk.	Less than 3 months
Green - 3	An issue where action is desirable and should help to strengthen the overall control environment and mitigate risk.	Less than 6 months

Note:- These 'overall assurance level' and 'recommendation risk ratings' will be based upon auditor judgement at the conclusion of auditor fieldwork. They can be adjusted downwards where clear additional audit evidence is provided by management of controls operating up until the point of issuing the draft report.



What Happens Now?

The final report is distributed to the relevant Head of Department, relevant Heads of Service, and those involved with discharging the recommended action.

Internal audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The ongoing progress in implementing each recommendation is reported by Internal Audit to each meeting of the London Councils Audit & Risk Management Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible (Joseph Lee, ext.1356) for the review or Pat Stothard, Head of Audit & Risk Management on Ext 1299, or via email to pat.stothard@cityoflondon.gov.uk.