

Internal Audit

Grant Income

June 2015

Distributed to:

- Chief Operating Officer
- Commercial and Customer Services Director
- Deputy Chief Operating Officer / Assistant Director of Finance
- Head of Finance
- Commissioning Director, Growth and Development
- Commissioning Director, Adults & Health
- Commissioning Director, Children and Young People
- Commissioning Director, Environment

Copied to:

- Adults & Communities Director
- Education and Skills Director
- Family Services Director
- Street Scene Director
- Director of Public Health
- Director of Strategy
- Interim Chief Executive, Barnet Group
- Commercial Director, Re
- Assistant Director of Finance, CSG

	No	Limited	Satisfactory	Substantial
Audit Opinion				

1. Executive Summary

Introduction

As part of the 2014/15 Internal Audit Plan, agreed by the Audit Committee in April 2014, we have undertaken an audit of Grant Income.

Background & Context

The Local Government Association (LGA) report "Future funding outlook for Councils 2010-11 to 2019-20" identified grant funding as one of the 6 funding/income streams for Councils.

Overall, local government spending is paid for by three main sources:

- Central Government
- Business rates – Business Rate Retention Scheme (50% of the business rates collected by the Council)
- Council tax

Funding from central government

Most funding comes from central government:

- Specific grants are provided by central government to pay directly for individual services, such as running schools and helping vulnerable people with their housing and accommodation needs. Local authorities and schools would normally only spend this allocated grant money on the specified purposes.
- The Settlement funding assessment consisting of the Revenue Support Grant and the redistribution of the 50% central share of Business rates collected by the Council that is paid to central government.

The LGA report referred to Council income expected to fall significantly from 2010-11 to 2019-20. For specific / other grants, the percentage of Council income was expected to fall from 18% to 4%.

It is therefore essential that all specific grant income for which the Council is eligible is identified and secured, if appropriate, to assist in addressing the significant overall funding gap expected from 2016-17 until 2019-20 of £73.5m.

Corporate objectives

Grant Income supports all three of the strategic objectives in the Corporate Plan 2013-16:

1. Promote responsible growth, development and success across the borough.
2. Support families and individuals that need it – promoting independence, learning and well-being.
3. Improve the satisfaction of residents and businesses with the London Borough of Barnet as a place to live, work and study.

Audit work completed

- We prepared and issued a Grant Income Self-assessment Questionnaire (GISAQ) for completion by senior management within the Council's Commissioning Group, internal delivery units and strategic partners (Barnet Group, Capita Customer Support Group (CSG) and Capita Re).
- We reviewed responses to the GISAQ to assess the adequacy of arrangements for:
 - **Grant identification:** pro-actively identifying/"scanning" for potential grants that may be applicable for service delivery;
 - **Grant evaluation:** arrangements to assess grant conditions and whether an application/bid for the grant should be made, including the assessment of the exit strategy once the grant funding ceases and engagement with Strategic Finance for support/advice for proper consideration of financial conditions linked to the grant;
 - **Review:** senior management scrutiny/challenge of the grant evaluation; and
 - **Decision making:** clear records and audit trails of decisions, for referral/review where necessary, as to whether to proceed or not proceed with the bid/ application for grant funding to embed accountability for effective decision making.
- We identified grants on the Grant Finder website and within "National Audit Office Local Government Funding: Assurance to Parliament – Government grants paid to local authorities (2013-14)", published 23 June 2014, to assess for their pro-active identification by the relevant officers and for records of decisions as to whether to proceed with making a bid/application for the grant funding.

Key findings (informing audit opinion)

There are one priority 1 and two priority 2 recommendations.

We issued 14 grant income self-assessment questionnaires to Delivery Units and the Commissioning Group. We received 12 responses (86%), including from those delivery units likely to be the main recipients of grant income (Adults & Communities, Education & Skills, Family Services, Street Scene, Barnet Group and Re).

The following good practice was evident in certain responses to the grant self-assessment:

- Devolved responsibility for pro-active arrangements for identifying grants (Commissioning Group - Strategy and Education and Skills).
- Dedicated central teams/officers responsible for pro-actively identifying and communicating grant opportunities and supporting grant evaluation and applications (Re and Barnet Group).
- Confirmation of grant evaluation processes, including the assessment of an exit strategy following termination of the grant funding (Barnet Group, Commissioning Group - Strategy, Re, Education and Skills, Street Scene and Adults and Health).
- The retention of audit trails of decisions as to whether to proceed with a grant bid/application or not (Street Scene, Adults and Health and Barnet Group).

The following significant issue was noted:

- **Grant identification** - Of the 12 responses received, there were 5 areas where pro-active arrangements for identifying grants need to be defined and formally implemented. (Priority 1).

The following other issues were noted:

- **Grant evaluation and approval** - Of the 12 responses received, there were 4 areas where grant evaluation and approval processes need to be developed. Engagement with the Commissioning Group's Head of Finance was not undertaken as a matter of course. Documented procedures governing grant evaluation were not available for referral in 10 of the 12 areas (Priority 2).
- **Grant decision making** - Of the 12 responses received, arrangements for the recording and retention of related decisions were robust for only 3 areas as they included a formal record of the decision for referral and review where necessary (Priority 2).

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Area of Scope	Adequacy of Controls	Effectiveness of Controls	Number of Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Grant Income			1	2	0

Acknowledgement	We would like to thank all management, officers and teams in the Council and at the Council's Strategic Partners for their time and co-operation during the course of the internal audit in completing the grant income self-assessment questionnaires and responding to the various grant information requests.
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2.1 Grant identification

P	Detailed finding	Risk	Recommendation
1	<p>Inconsistent evidence of pro-active arrangements for grant identification (“horizon scanning”)</p> <p>The findings confirm the lack of a consistent and robust process, across the Council, for pro-actively identifying grants and being able to evidence such process.</p> <p>We would expect all eligible grants identified to be formally recorded for referral and reporting to the relevant senior management team periodically. Furthermore, where applications are not made for eligible grants, we would expect that this decision be reviewed and validated by Finance.</p> <p>We noted 4 areas, where pro-active grant identification arrangements had not been formally implemented. Responsible officers indicated that better arrangements were planned pending the provision of resources/review:</p> <ul style="list-style-type: none"> • Family Services • Commissioning - Adults and Health • Commissioning - Children and Young People • Commissioning - Environment <p>No evidence was provided during the audit of arrangements for pro-actively identifying grants</p>	<p>If grant funding sources are not pro-actively identified for consideration, the Council may miss funding opportunities, may not be able to provide the optimum services to residents and may not be able to meet the significant overall funding gap expected from 2016-17 until 2019-20 of £73.5m leading to damage to Council’s reputation.</p>	<p>Recommendation 1</p> <p>Roles/arrangements for <u>pro-actively</u> identifying grant opportunities should be implemented.</p> <p>a) We suggest that roles for pro-actively identifying grants could be undertaken as part of existing structures as follows:</p> <p>(i) Delivery Units together with their Commissioning Directors should consider the options available, including the possibility of a dedicated team/officer for pro-actively identifying grants depending on resources / the significance of grants available in that area.</p> <p>(ii) Service area leads pro-actively identify grants in their area. Local business improvement / performance teams challenge for proactive identification, undertake proactive reviews themselves and co-ordinate related reporting of horizon scanning outcomes as part of their local performance management arrangements.</p> <p>(iii) CSG service areas: Senior Responsible Officers (SROs) client-side at the Council pro-actively identify grants in their CSG responsibility areas or arrange for CSG Capita leads to undertake this role, with SRO monitoring CSG identification activity.</p>

<p>relevant to CSG individual service areas, for example Estates, IT or Revenues & Benefits, although we are aware that some relevant grants had been applied for</p> <p>CSG Finance stated that if they identify grants available to the Council then they refer the grant details to the respective delivery unit and it is then that delivery unit's decision to apply or to have a justification if they don't apply.</p> <p>Adults & Communities and Street Scene (Waste and Recycling) confirmed re-active arrangements relying on notifications from Central Government and related funding bodies. Street Scene indicated that this was generally sufficient for identifying all related grants.</p> <p><u>Performance measures</u></p> <p>One area, Re, confirmed that accountability for identifying grants was embedded through a related KPI performance measure subject to review and scrutiny as part of contract management. The CSG contract included a related Finance PI for identifying funding opportunities.</p> <p><u>Documented procedures</u></p> <p>Of the 12 responses, 9, including the 5 areas where arrangements still have to be developed as per the above, did not have clear related documented procedures governing grant identification arrangements.</p> <p><u>Grant spot checks and missed grants</u></p>		<p>b) Existing performance management arrangements should be used to embed accountability for pro-active grant identification by relevant officers/teams, for example as part of Delivery Unit Management Agreements, through local performance indicators or through the staff objectives/performance review/appraisal process.</p> <p>c) Eligible grants identified should be formally documented and reported to Senior Management to ensure that grant identification processes are undertaken routinely and that senior management are involved in the decision making process. This could form part of Senior Management Team (SMT) standing agendas.</p> <p>d) All eligible grants for which applications will not be submitted should be reported to the Commissioning Group's Head of Finance sufficiently <u>in advance</u> of application deadlines, 5 working days as a minimum, to consider whether decisions not to apply were appropriate and challenge as necessary.</p> <p>e) Procedures should be documented governing identification arrangements in each area. The procedures should include:</p> <ul style="list-style-type: none"> - grant identification mechanisms such as the use of the Grant Finder website, Internet searches and pro-active engagement with known funding bodies. - arrangements for the
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<p>Barnet Group confirmed that 3 relevant grants had been missed, as follows:</p> <ul style="list-style-type: none">- Green Deal Home Improvement Fund. £88m was allocated to 24 local authorities by 31/3/2014),- Community Energy Saving Programme (CESP). From 1 October 2009 to 31 December 2012, £350m was available for the programme. The value would have been based on projects involving the LHA supporting the reduction of fuel bills and energy consumption.- Carbon Emissions Reduction Target (CERT). Between 2008 and 2012, it is estimated that £2.8 billion would be spent by energy providers on carbon reduction measures in order for the country to meet its carbon reduction targets. Local authorities and Registered Social Landlord's (RSL's) could utilise the funding available from the energy suppliers to fund CERT projects reducing their carbon emissions. <p>We identified 7 grants from the National Audit Office records and Grant Finder website for which the four related area management/officers were unable to confirm whether they were eligible or not or to provide records supporting their identification and consideration at the time the grant was available.</p>		<p>escalation/communication of grant opportunities to the relevant areas for evaluation if identified centrally</p> <ul style="list-style-type: none">- arrangements for the recording and reporting of all grant opportunities, identified for follow-up/monitoring and reporting- arrangements for the timely escalation to the Commissioning Group's Head of Finance for all eligible grants for which applications will not be submitted.
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Management Response	Responsible Officer	Deadline
<p>Across commissioning portfolios (in commissioning group or Delivery units) grants databases will be maintained which evidence horizon scanning, at least once every quarter. Evidence may include communication with relevant central government departments or the use of grant finder. 'Invest to save' options will also be explored, for example the possibility of engaging an appropriate grants finding company.</p>	<p>Commissioning Directors for:</p> <ul style="list-style-type: none"> • Adults and Health; • Children & Young People; • Growth and Development; and • Environment <p>Commercial and Customer Services Director</p> <p>Supported by Finance (Commissioning Group)</p>	<p>1 September 2015</p>

2.2 Grant evaluation and approval

P	Detailed finding	Risk	Recommendation
2	<p>Of the 12 responses, 7 provided confirmation of grant evaluation processes, including the consideration of an exit strategy and review/scrutiny/approval of the grant evaluation by relevant Senior Management.</p> <p>For 4, the introduction of suitable arrangements was planned pending provision of resources /review:</p> <ul style="list-style-type: none"> • Family Services 	<p>If grants are not properly evaluated then the conditions and the costs of administration may outweigh the income benefits to the Council and there may not be an appropriate exit strategy for when any funding ceases.</p>	<p>Recommendation 2</p> <p>a) Grant evaluation and approval arrangements should be formally documented for referral in all applicable areas to ensure that:</p> <ul style="list-style-type: none"> - grant conditions/criteria are understood and met - the benefits of applying are understood and are not outweighed by the cost of the submitting an application and - an exit strategy is considered to ensure the

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<ul style="list-style-type: none">• Commissioning - Adults & Health• Commissioning - Children and Young People• Commissioning - Environment <p>For CSG, grant evaluation arrangements were unclear for relevant service areas, for example Estates, IT or Revenues & Benefits</p> <p><u>Engagement with Finance</u></p> <p>Of the 6 with grant evaluation processes in place, only 1, Commissioning Group - Strategy, confirmed engagement with the Commissioning Group Head of Finance as standard. Barnet Group confirmed engagement with their Finance team as standard and the Commissioning Group Head of Finance where necessary. Three (3) areas confirmed engagement with the Commissioning Head of Finance only where they considered it necessary. 1, Re, considered the need to engage not applicable</p> <p>We would expect that the Commissioning Group's Head of Finance should be notified of all eligible grants where decisions are taken not to apply/bid for the grant following grant evaluation. We would also expect that CSG finance officers be engaged in the evaluation and application process for support and advice where considered necessary.</p> <p><u>Documented procedures</u></p> <p>Of the 12 responses, 10 did not have clear</p>		<p>continuation of service once the grant funding ends or the management of expectations of grant beneficiaries.</p> <p>b) Procedures should also refer to requirements for Delivery Units to notify the Head of Finance in the Commissioning Group of all identified grant opportunities for which they were <u>eligible</u> but for which they have decided <u>not</u> to apply/bid, sufficiently <u>in advance</u> of application deadlines (5 working days as a minimum) to assess whether such decisions were appropriate.</p> <p>c) Leads officers in areas who have identified eligible grants should engage with CSG finance officers for support and advice when evaluating and applying for grants where considered necessary.</p>
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<p>related documented procedures governing grant evaluation and senior management approval/scrutiny. Re referred to the protocol in the contract.</p>		
Management Response	Responsible Officer	Deadline
<p>Grants database will list grants eligible to be bid for and the process that was followed. Reasons will be recorded where bids will not be made for eligible grants. Where a grant bid has been successful, evidence of grant conditions being understood and followed will be demonstrated.</p>	<p>Commissioning Directors for:</p> <ul style="list-style-type: none"> • Adults and Health; • Children & Young People; • Growth and Development; and • Environment <p>Commercial and Customer Services Director</p> <p>Supported by Finance (Commissioning Group)</p>	<p>1 September 2015</p>

2.3 Grant decision making

P	Detailed finding	Risk	Recommendation
2	<p>Of the 12 responses, 7 provided confirmation of the retention of related decisions.</p> <p>3 of the areas, Adults & Communities, Barnet Group and Street Scene, provided confirmation</p>	<p>If decisions are not formally recorded for referral and scrutiny, then sub-standard decision making may arise where grants are secured when grant conditions and the costs of administration outweigh the</p>	<p>Recommendation 3</p> <p>a) All decisions about whether to proceed or not with a grant application/bid for all eligible grants, following identification or the</p>

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<p>of retention of records of all decisions which were supported by e-mail trails.</p> <p>The remaining 4 confirmed the retention of e-mail trails only, increasing the risk of deletion/loss of audit trail and the inability to trace back to decisions.</p> <p><u>Documented procedures</u></p> <p>Of the 12 responses, 10 did not have clear documented procedures governing decision making following scrutiny of the grant evaluation outcome.</p> <p>Re referred to the protocol in the contract.</p>	<p>income benefits to the Council leading to an inefficient use of scarce resources.</p>	<p>grant evaluation process, should be recorded/logged and retained, preferably in a central database within each delivery unit, for referral and reporting where necessary.</p> <p>b) Decisions should be reported to the relevant Senior Management Team, we would suggest as part of quarterly performance reporting.</p> <p>c) Supporting documentation, for example management meeting minutes and e-mail trails, should be retained on the shared drive as an audit trail of the decision made.</p> <p>Procedures should be documented specifying roles and responsibilities and the arrangements for recording, retaining evidence of and reporting related decisions.</p>	
<p>Management Response</p>		<p>Responsible Officer</p>	<p>Deadline</p>

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<p>Grants database will evidence decision making in relation to grant.</p>	<p>Commissioning Directors for:</p> <ul style="list-style-type: none"> • Adults and Health; • Children & Young People; • Growth and Development; and • Environment <p>Commercial and Customer Services Director</p> <p>Supported by Finance (Commissioning Group)</p>	<p>1 September 2015</p>
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Timetable	
Terms of reference (fieldwork start)	16 February 2015
Fieldwork completed	09 April 2015
Draft report issued – factual accuracy	12 May 2015, 21 May 2015
Management responses received	26 June 2015 (Finance – Client side), 29 June 2015 (Responses from Commissioning Directors)
Final Report Issued	30 June 2015

Appendix A: Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below:

- The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.
- Recommendations for improvements should be assessed by you for their full impact before they are implemented.
- The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.
- Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.
- Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents.
- Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

○	Substantial Assurance	There is a sound system of internal control designed to achieve the system objectives. The control processes tested are being consistently applied.
●	Satisfactory Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.
●	Limited Assurance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the system objectives at risk.
●	No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Priorities assigned to recommendations are based on the following criteria:

- 1 – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
- 2 – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 – 6 months.
- 3 – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.