

## **REPORT TO THE ABERDEENSHIRE INTEGRATION JOINT BOARD AUDIT COMMITTEE – 7 DECEMBER 2022**

### **INTERNAL AUDIT REPORTS**

#### **1 Executive Summary/Recommendations**

1.1 The purpose of this report is to advise the Committee of the outcomes of completed audits. Public Sector Internal Audit Standards require the Internal Audit report the results of its activities to the Board. In Aberdeenshire IJB, this is the Audit Committee. This report helps satisfy the requirement.

#### **1.2 Recommendation**

**The Committee is recommended to:**

**1.2.1 Review, discuss and comment on the issues raised within this report and the attached appendices.**

#### **2 Decision Making Route**

2.1 The results from individual audit activities detailed in Section 4, below, have not previously been considered by this, or another Committee, with the exception of any outputs relating to audits contained in the Aberdeenshire Council Internal Audit Plan that relate to Adult Social care. In such cases, the output will have been considered by the Aberdeenshire Audit Committee prior to being considered by this Committee.

#### **3 Discussion**

##### **Internal Audit Reports**

3.1 The following Internal Audit reports have been finalised and agreed with services since the Audit Committee's last meeting

- **Internal Audit Report 2206 – Following the Public Pound – September 2022 – See Appendix A**

#### **4 Discussion**

4.1 The Chief of the Health and Social Care Partnership has been consulted in the preparation of this report and any comments received have been incorporated.

#### **5 Equalities, Staffing and Financial Implications**

5.1 An equality impact assessment is not required because the recommended actions are not considered to have a differential impact on people with protected characteristics.

5.2 Any staffing and financial implications arising directly as a result of this report are narrated in the report.

**CHIEF INTERNAL AUDITOR**

Report prepared by Jamie Dale, Chief Internal Auditor  
28 November 2022

**List of Appendices**

**Appendix A** – Internal Audit Report 2206 – Following the Public Pound

**Appendix B** – Grading of Recommendations

## Appendix A

### Internal Audit Report 2206 – Following the Public Pound

#### Background

In 1996 the Accounts Commission and Convention of Scottish Local Authorities (COSLA) published a “Code of Guidance on Funding External Public Bodies and Following the Public Pound” describing the principles of openness, integrity and accountability that apply to local authorities in their decisions on spending public money. The Council’s related “Code of Practice – Following the Public Pound: Aberdeenshire Procedures” (the Council’s FPP Code) was approved most recently by the Policy & Resources Committee in November 2016 and it is a requirement of the Council’s Financial Regulations for each grant award made by the Council to be subject to the Council’s FPP Code.

The larger the amount of funding provided to an arm’s length and external organisation (ALEO), the more background information and financial checks that are required. The Council’s FPP Code also sets out expected payment schedules and how service agreements / funding letters should be completed.

On 1 June 2022, the Integrated Joint Board approved grant awards to 25 organisations for the period 1 July 2022 to 31 March 2025 with a total value of £963k. In 2021/22, according to the Council’s grants register, grant awards were made to third sector organisations totalling £280k from an available budget of £302k.

#### Objective

The objective of this audit was to obtain assurance that Health and Social Care Partnership’s (H&SCP) grant payments comply with the Council’s policy and procedure, including Following the Public Pound Code of Practice. Testing focused on grants of £10,000 or more; there were no grants awarded by the IJB for 2022/23 that exceeded £100,000, requiring the most onerous FPP Code checks.

#### Assurance

The H&SCP has developed the grant application process for 2022/23 with consideration given to aligning grant use to Service priorities as well as the future sustainability of funded organisations. In general, there was evidence of consideration of FPP checks for awarded grants, with grant letters describing funded organisations’ responsibilities where the FPP process had been applied and associated monitoring of funded organisations to ensure compliance.

Recommendations were agreed by the H&SCP to formalise the grant application scoring process including justifications; to introduce a system of review for application scores, and proposed awards; to ensure FPP checks are undertaken for all grant payments prior to payment and payment schedules comply with the Council’s FPP Code; and to update the Council’s grants register in a timely manner.

Finance has also agreed to ensure FPP checks undertaken demonstrate compliance with FPP Code requirements and to introduce a system of control to ensure individual payments to a grant recipient do not that exceed the FPP Code maximum limit for a single grant payment.

#### Findings and Recommendations

It was reported to the IJB in June 2022 that the very wide and varied scope of services and projects covered in the applications made comparative evaluation extremely challenging. This suggests scoring applications was problematic. On reviewing the

grant application scoring matrix used by the Service, whilst it was comprehensive and covered all expected criteria the scores were subjective with no guidance as to what constituted an 'unacceptable response' through to an 'excellent response'. Internal Audit appreciates extensive work was undertaken by the Service to advertise the grant scheme opportunity and assess applications returned using a structured approach that considered strategic priorities. The Service also advised the scoring process was discussed with the Vice Chair, C&PSS, Finance, and local service managers with a view to getting the correct result. However, several grant award outcomes for 2022/23 were not supported adequately with an explanation to justify the score and award.

Eight (32%) organisations were awarded grants for the period 1 July 2022 to 31 March 2025 (indicative 1 April 2023 to 31 March 2025) that were a total of £147k greater than the amount applied for according to the respective application forms and the application total score (seven greater than application amount and one awarded full award when this should have been half of the applied for amount based on the application score and the grant award proposal methodology reported the IJB in June 2022). In addition, whilst application scores had been consistently calculated (added) based on the scores allocated for each application criteria, the scores were not justified in at least one criteria (adequacy of governance arrangements), in all 10 cases reviewed (100%) and two (20%) of the sample had no justification for scores for four criteria, including evidence of need / demand. It is appreciated the process is under review and supporting documentation was present for some aspects of the process, however improvements to the audit trail explaining the decisions reached would help demonstrate consistency in assessment of grant applications and avoid any potential reputational damage to the Council should a grant award be challenged. Recommendations graded 'Significant within audited area' were raised to formalise the grant assessment scoring process; to seek adjustment of award or subsequent approval from the IJB for any miscalculated awards; ensure application scores are justified and to introduce a system of review to ensure grants are recommended for award in line with application values and scores.

In accordance with the Council's Financial Regulation 4.15.5, all awarded grants must be recorded in the Council's grants register. The Council's grants register is PowerBI based and updated via a self-explanatory online form accessed via the Council's online Finance Hub. The grants register is a useful tool to monitor grant awards and ensure the Council's FPP Code is being complied with. As at 5 August 2022, the grants register had not been updated to reflect the H&SCP grants awarded by the IJB on 1 June 2022, which began to be paid on 28 July 2022 for 21 organisations and 2 August 2022 for another organisation awarded a grant, with three organisations yet to receive a payment. Where application checks are not captured on the grants register in advance of grants being awarded, this increases the risk these checks are not completed as required. A recommendation graded 'Significant within audited area' was raised for the H&SCP to update the grants register with details of grant applications received and the FPP checks undertaken in advance of grant awards.

FPP checks were undertaken by Finance for a sample of 10 grants however nine (90%) were not completed in line with FPP Code requirements. Audited accounts or in the case of a charity, a minimum of accounts subject to an independent examination, are required for FPP checks where grant applications exceed £3k. The sample of 10 grants reviewed all exceeded £3k however unaudited accounts were used for three FPP checks (30%) and no accounts were made available for one (10%) FPP check. Income and expenditure forecasts were not used for FPP checks as required for a further four (50%) out of eight grant applications where annual grants applied for exceeded £10,000.

FPP checks for three (38%) out of eight grant applications exceeding £10k per annum did not cover going concern nor did they cover adequately the risk assessment questions since the answers indicated the organisations concerned were applying for low value grants when they were in fact applying for £75k, £72k and £60k respectively in the period 1 July 2022 to 31 March 2025. Four (50%) of the eight grant applications exceeding £10k per annum indicated material alternative sources of income had been secured from other organisations however confirmation in writing from the funding providers was not obtained as part of FPP checks for three of these (75%). Whilst evidence of FPP checks being completed was in place, where risk assessments and financial checks of an organisation's ability to continue operating are not adequately undertaken in line with the Council's FPP Code, this increases the risk of financial loss and reputational damage to the Council. A recommendation graded 'Significant within audited area' was raised with Finance to ensure FPP checks are completed in line with the Council's FPP Code.

An organisation received a one-off payment of approximately £25k for 2022/23 on 31 May 2022 that had not been approved by the IJB, had no evidence of an FPP process being applied, and there was no entry on the Council's Contract Register for the payment. The organisation also received £6.25k for the period 1 July to 30 September 2022, in addition to a £2.43k payment made on 12 April 2022 for the three-month period 1 April to 30 June 2022. This is in breach of the Council's FPP Code payment schedule requirements since the payment schedule should have been monthly rather than quarterly to safeguard against the funded organisation ceasing to operate and a one-off payment of £25k should never have been made since the upper limit on one-off payments under the Council's FPP is £10k. Recommendations graded 'Significant within audited area' were raised with the H&SCP to ensure grant applications are assessed in compliance with the Council's FPP Code prior to grants being awarded and paid and to ensure payments are scheduled and made in accordance with the Council's FPP Code. A recommendation graded 'Significant within audited area' was also raised for Finance to ensure advance grant payments to organisations through the accounts payable system do not exceed the Council's FPP Code limit for a single payment.

Internal Audit recalculated the grant payments awarded by the IJB in June 2022 on the amounts proposed to the IJB for the period 1 July 2022 to 31 March 2025. The report to IJB in June 2022 was not clear as it did not break the amounts down into the figures for the nine months to 31 March 2022, which the IJB was expected to approve and the indicative figures for 1 April 2023 to 31 March 2025. Internal Audit's calculation was based on dividing the values reported as relating to 1 July 2022 to 31 March 2025 by 33 months to get one month of grant award approved by the IJB and then multiplying this answer by nine for the nine months related to 2022/23. Three (12%) of the 25 organisations awarded grants by the IJB in June 2022 had not been paid as at 5 August 2022 and were excluded from testing. One (4%) of the 23 organisations paid in July / August 2022 was overpaid by approximately £1k and 20 of the 22 organisations were underpaid or forecast to be underpaid based on Internal Audit's recalculation. Generally, underpayments appeared to be because payments were based on dividing the proposed award for 1 July 2022 to 31 March 2025 by 36 months and multiplying by nine months instead of dividing by 33 months (the duration of the grant award). A recommendation graded 'Significant within audited area' was raised for the H&SCP to review calculations for 2022/23 grant payments and ensure these are made in line with what was approved by the IJB.

#### Management Response

*Aberdeenshire Health and Social Care Partnership senior management welcome the report providing evidence of consideration of FPP checks for awarded grants, with grant letters describing funded organisations' responsibilities where the FPP process had been applied and associated monitoring of funded organisations to ensure compliance.*

*The Partnership have agreed recommendations to formalise the grant application scoring process including justifications; to introduce a system of review for application scores, and proposed awards; to ensure FPP checks are undertaken for all grant payments prior to payment and payment schedules comply with the Council's FPP Code; and to update the Council's grants register in a timely manner.*

*The Finance Service are currently reviewing the Following the Public Pound Code of Practice and welcome the recommendations and suggestions for improvement. Once complete the revised Code will be presented to Business Services Committee, and training will be provided for all Finance and Service staff to aid future compliance*

**APPENDIX B**

**Grading of Recommendations**

<b>GRADE</b>	<b>DEFINITION</b>
<b>Major at a Corporate Level</b>	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
<b>Major at a Service Level / within audited area</b>	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.