

Item: 7.1

Monitoring and Audit Committee: 8 June 2023.

Internal Audit Report: Following the Public Pound.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on processes and controls relating to Following the Public Pound.

2. Recommendations

The Committee is invited to scrutinise:

2.1.

The findings contained in the internal audit report, attached as Appendix 1 to this report, reviewing arrangements in place to ensure that suitable and proportionate governance in respect of all Following the Public Pound funding agreements entered into by the Council are in place, in order to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The Following the Public Pound concept applies when councils decide to fund external organisations which deliver services that might otherwise be delivered by the councils themselves. In these arrangements, councils agree to provide funds and other resources to companies and other organisations such as trusts or grant aided voluntary organisations.

3.2.

Orkney Islands Council funds Arm's Length External Organisations (ALEOs) for a range of purposes related to Council services and its broader objectives. During financial year 2021/22, the Council made grant payments of £14,759,033 to ALEOs.

3.3.

The objective of this audit was to review the arrangements in place within the Council to ensure that there are suitable and proportionate governance arrangements for all Following the Public Pound funding agreements entered into by the Council.

4. Audit Findings

4.1.

The audit provides substantial assurance that procedures and controls relating to Following the Public Pound are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes one medium priority recommendation regarding service level agreements, and two low priority recommendations regarding options appraisals and a review of the policy. There are no high priority recommendations made as a result of this audit.

4.3.

The Committee is invited to scrutinise the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officer

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9. Appendix

Appendix 1: Internal Audit Report: Following the Public Pound.



Internal Audit

Audit Report

Following the Public Pound

Draft issue date: 11 April 2023

Final issue date: 3 May 2023

Distribution list:	Service Manager (Accountancy) Head of Finance Corporate Director for Enterprise and Sustainable Regeneration
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The objective of this audit was to review the arrangements in place within the Council to ensure that there are suitable and proportionate governance arrangements for all Following the Public Pound (FTPP) funding agreements entered into by the Council, that public funds are awarded against set criteria and that performance for delivering objectives is suitably monitored and scrutinised.

Our audit provides substantial assurance that controls operating over FTPP are generally working well and confirms that there are several areas of good practice evident. For example:

- An annual process in seeking and receiving updates from Services to maintain the Council's FTPP register.
- Comprehensive reconciliations carried out between the Council's FTPP register and grant payments made.
- Good guidance notes provided to Services for the FTPP process.
- Accurate ledger reconciliations are carried out.
- Usage of the Council's purchase to pay system in processing grant payments.
- Training provided to Councillors on their duties and responsibilities when appointed as Council representatives in being directors or trustees of Arm's Length External Organisations (ALEOs).

The report includes 3 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
3	0	1	2

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Following the Public Pound (FTPP) concept applies when councils decide to fund external organisations which deliver services that might otherwise be delivered by the councils themselves. In these arrangements, councils agree to provide funds and other resources to companies and other organisations such as trusts or grant aided voluntary organisations.

Orkney Islands Council funds Arm's Length External Organisations (ALEOs) for a range of purposes related to council services and its broader objectives. These arrangements may be more complex than standard purchase contracts for goods or services and are usually designed to deliver wider public benefits. They involve the transfer of public funds from the direct control of a council to the control of an ALEO. In practice these can range from relatively small grants to voluntary organisations and small community organisations, to payments to trusts set up by the council to manage, for example, the Pickaquoy Centre. To ensure that public funds are used properly, to maintain accountability, and to ensure that value for money is secured, it must be possible to trace the funds from the point at which they leave the Council to the point at which they are ultimately spent by the receiving organisation. In other words, it is important to be able to follow the public pound across organisational boundaries.

During the 2021/22 financial year the Council made grant payments of £14,759,033 to Arm's Length External Organisations.

This review was conducted in conformance with the Public Sector Internal Audit Standards

Audit Scope

The scope of the audit included a review of the following:

- Council policy and processes for the awarding of Council grants, including, but not limited to, awards made against financial criteria, goals and risk assessment.
- Whether processes are inclusive towards all potential tenderers.
- Review of potential alternative sources of funding is carried out prior to funding.
- That awards are made subject to the delivery of a detailed Service Level Agreement that is based on SMART goals (Specific, Measurable, Achievable, Realistic and anchored within a Timeframe).
- That delivery of the set goals is systematically monitored during the period of delivery the award is made towards.

A selection of 8 Council grants were reviewed as part of this audit. These being:

- Citizens Advice Bureau.
- Crossroads Care Orkney.
- Home-Start Orkney.
- Orkney Ferries Limited.
- Pickaquoy Centre Trust.
- Pier Arts Centre.
- Voluntary Action Orkney.
- Who Cares.

Background

The Accounts Commission for Scotland holds councils and other local government bodies in Scotland to account and helps them improve by reporting to the public on their performance. The Accounts Commission for Scotland and the Convention of Local Authorities Scotland (COSLA) jointly issued the Code of Guidance on Funding External Bodies and Following the Public Pound (the Code). The Code was prepared due to concerns about the use by councils of trusts and companies they established. Such trusts and companies would characteristically be designed to carry out some function of the council and would receive funds from the council. The public funds involved moved outwith the normal regime of accountability which applies to councils. The principal objective of the Code was to re-establish some of the mechanisms of accountability in relation to these funds.

Each council must apply the principles of the Code as it relates to its own individual circumstances. The Code seeks to ensure that the key themes of openness, integrity and accountability are applied to services delivered by ALEOs.

The Code identifies six key principles which a council should address to ensure it is delivering best value in its management of services delivered through third parties. These six key principles are as follows:

Purpose	The council is clear about its reasons for transferring funds to the ALEO.
Financial Regime	The council has a clear and robust financial management regime in place.
Monitoring	The council has robust arrangements for monitoring its relationship with an ALEO.
Representation	The council is clear about the purpose of any officer or member on ALEOs, and representatives discharge their responsibilities with due regard to the objectives of the council.
Limitations	In entering into a substantial funding commitment with an ALEO, the council lays down a timetable for the achievement of its objectives.
Accountability	The council makes arrangements for suitable access by internal and external audit.

Audit Findings

1.0 Council Policy and Processes for the Awarding of Council Grants

- 1.1. The Council's Financial Regulations contain a specific section on following the public pound. The emphasis is upon Services to adhere to the Council's guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arm's length bodies such as companies, trusts and voluntary organisations.
- 1.2. The Council's policy on following the public pound was last considered by the Policy and Resources Committee at its meeting of 23 June 2009. The principles of FTTP have not

changed since the Code of Guidance on Funding External Bodies and Following the Public Pound was published in 1996 and supplementary operational guidance was issued by COSLA in 1998.

- 1.3. The detailed requirements for funding external bodies and following the public pound which accompanies Council policy is compliant with the requirements of the Code. However, the policy should be reviewed and updated, for example where references are made to Officer job titles which have changed over time.

Recommendation 1

2.0 Compliance with the 6 Key Principles of the Code.

- 2.1. The detailed requirements of the Council's FTTP Policy include a requirement that Services are required to carry out an options appraisal of the alternative methods of service delivery available before committing to funding an ALEO. This options appraisal should be revisited with each renewal period.
- 2.2. A formal options appraisal of the potential alternative methods of service delivery was not carried out in any of the eight Council grants reviewed. Previous Committee agreement to grant funding was identified for 7 of the 8 grants reviewed. Relevant reports to Committee generally provide options that may be available. The remaining grant is provided to meet a specific legal obligation. At least 5 of the higher value grants are also considered specifically within the annual budget setting process.
- 2.3. Although the options available for alternative methods of service delivery are often very limited, in order to ensure compliance with policy, it is recommended that guidance notes or a template is developed so that a simple options appraisal may be carried out prior to making grant awards.

Recommendation 2

- 2.4. All of the 103 grants recorded on the register include a risk score.
- 2.5. In the 3 out of 8 instances reviewed where non-monetary support is awarded, these were each correctly recorded on the FTTP register.
- 2.6. In 7 of 8 instances reviewed there is an adequately detailed service level agreement (SLA) in place. For the remaining instance the provision of the service was carried out under a competitive tendering process and the contract adequately covers the purpose of the SLA.
- 2.7. In 2 of the 8 instances reviewed the SLA agreements have passed their expiry dates of 1 April 2022 and 31 March 2009.
- 2.8. Overall, in the 34 instances on the register where the grant awarded is in excess of £10,000 there are a further 8 instances where an SLA agreement has not been entered into.
- 2.9. It is recommended that SLAs are entered into for all grant awards in excess of £10,000 in accordance with Council policy and where existing SLAs have expired either revised SLAs are entered into or the existing SLA formally extended.

Recommendation 3

- 2.10. In all of the instances reviewed the purpose of the grant funding was clearly identified, is linked to a Council strategy or policy and is compliant with the aims and responsibilities of the Council.
- 2.11. In all of the instances reviewed the grant funding was paid correctly utilising the Council's purchase to pay system and inbuilt controls.
- 2.12. The Council's detailed requirements for its FPPP policy require, as a guide, that reports should be received from ALEOs at the following frequency:
- Less than £10,000 - annual reporting,
 - £10,000<grant<£25,000 - 6 monthly
 - £25,000 and above - Quarterly
- 2.13. In all of the instances reviewed, formal monitoring information was reviewed on at least an annual basis. For 6 of the 8 instances reviewed, the frequency at which formal monitoring took place was outside the requirements of the guide. For the grant between £10,000 and £25,000 monitoring takes place annually rather than 6-monthly. For the 7 grants selected with a value above £25,000, 2 were monitored quarterly, 1 was monitored 6-monthly and 4 are monitored annually. We are advised by Officers that they communicate and meet with ALEOs in addition to the formal monitoring process.
- 2.14. In the 2 of 8 instances reviewed where Councillors are appointed to be directors (Orkney Ferries Ltd) or trustees (The Pickaquoy Centre Trust) the purpose of their representation is clear, and the representatives discharge their responsibilities with due regard to the objectives of the Council. On 10 May 2022, following the Local Government Election, Councillors received a presentation regarding their duties and responsibilities when appointed as either directors or trustees to ALEOs.
- 2.15. In all of the 8 instances reviewed, suitable limitations to the grant funding are set out within the award, including a fixed value and a defined period for which the grant is awarded, and a defined process for cancellation of the grant should the level of service not meet the set criteria.
- 2.16. In all instances reviewed there are suitable conditions attached to the grant funding requiring the recipient to provide reasonable cooperation with audits and inspections.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1) The Council's policy for FTTP should be regularly reviewed.	Low	Agreed, review required including policy, limits, etc., etc.	Head of Finance	31 July 2023
2) Guidance notes or a template should be developed so that a simple options appraisal may be carried out prior to making grant awards.	Low	Not agreed. Given range of uses of arm's length funding one size would not fit all, and each award should be considered by each service in alignment with their own process for options appraisal. A memo will be sent to Corporate Directors asking them to ensure that officers are aware that an options appraisal is required for each grant.	Head of Finance	31 July 2023
3) Where a Service Level Agreement (SLA) has not been entered into or existing SLAs have expired, new SLAs should be put into place or existing ones formally extended.	Medium	Agreed. Each payment – not only those over £10k – should be reviewed for relevance, and services should ensure SLAs are current, still meet the needs of the service, and provide value for money.	Corporate Directors	31 December 2023

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.