



Confidential

Internal Audit Report

Authority

Directorate

Audit Title

Audit Year

Report Distributed To:	Gill Lewis – Interim Head of Finance & Section 151 Officer	
Report Produced & Issued by:	Nathan Smith – Senior Auditor Joan Davies – Audit Client Manager	
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1. Introduction & Background

- 1.1. An audit review of External Funding was undertaken as part of the 2020/21 annual Internal Audit Plan.
- 1.2. This report sets out the findings of the review and makes recommendations where it is felt that improvements in financial and non-financial administration could be made.
- 1.3. External funding can be received from a range of sources and can assist in the delivery of Corporate Priorities to support new initiatives and ongoing activities. In undertaking the delivery of these new initiatives and ongoing activities, demonstrating transparency, careful observation and value for money of public funds is of utmost importance with Officers needing to comply with Council policies, including Contract Procedure Rules and Financial Procedure Rules, at all times as well as to specific funding terms and conditions.
- 1.4. A previous audit review which was completed in October 2019, raised a number of concerns relating to the governance, decision making, procurement, monitoring and control of an externally funded scheme. The concerns raised related to financial and procurement aspects in place during 2012/13, therefore, this review has been undertaken to ensure that those identified weaknesses are not inherent in other, more recent external grant funded programmes.

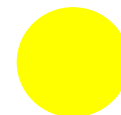
2. Objectives & Scope of the Review

- 2.1. The objective of the review was to provide assurance that the Council's policies and procedures as well as the funding terms & conditions are being adhered to when managing external funding received by the Council.

3. Audit Opinion

Based on an assessment of the strengths and weaknesses of the areas examined, and through testing, it has been concluded that the effectiveness of the internal control environment is **reasonable**. This overall opinion is supported by the identification of risks in some areas of the system, which although not substantial in nature could compromise the overall control environment. Action is considered necessary to avoid potential exposure to significant risks.

From the sample selected and reviewed, the concerns highlighted by a previous externally funded scheme have not been replicated. Documentation was available to support compliance to the Council's Contract Procedure Rules and the involvement of Corporate Procurement when engaging contractors. There was also evidence of supplier monitoring, reporting and governance across all the projects sampled.



Reasonable Assurance

4. Findings & Recommendations

4.1. Selection of the Sample

- 4.1.1 Information provided by Finance was used in conjunction with the Capital Outturn Reports to identify externally funded schemes. Analysis was undertaken by the Auditor on the cost centres identified, with prioritisation given to schemes with supplier spend above tender thresholds. A range of schemes of varying size across both revenue and capital were selected with spend recorded in the financial years 2018/19 and 2019/20 as shown below in Table 1 below.
- 4.1.2 Meetings were held with all lead officers in order to gain an understanding of the grant workings, delivery and relevant documentation required. The review concentrated on key themes in delivering grants across the Council rather than financial verification of each grant so the funding amounts below are shown for information only.

Table 1 – Selected Externally Funded Schemes

Directorate	Scheme	Source	Funding Period	Funding Amount
Communities	Active Travel – Pencoed to Pencoed Technology Park	Welsh Government	2019/20	£983,600
Communities	AGORA – Local Supply Chains	Welsh Government	2016 - 2020	£613,131
Communities	Bridge Strengthening A4061, Frithwaun	General Capital Funding*	See below*	See below*
Chief Executive's	Innovation Funding	Welsh Government	2019/20	£262,642
Social Services & Wellbeing	Local Sport & Active Recreation	Sport Wales	2019/20	£380,100
Communities	Local Transport Fund – Bridgend to Coychurch	Welsh Government	2019/20	£750,000
Communities	Porthcawl Town Beach Sea Defence	Welsh Government	2018/19 2019/20	£2,299,146 £98,512
Communities	Porthcawl Townscape Heritage Initiative	Heritage Lottery Fund	2014 - 2019	£524,900
Communities	Valley's Regional Park – Parc Slip	Welsh Government	2019/20	£200,000
Education & Family Support	Youth Support Grant	Welsh Government	2019/20	£449,407

* *Bridge Strengthening A4061 Frithwaun, was marked in the Capital Outturn Report as receiving £734k of the total cost from external funding, rather than coming through a grant, this project is supported by general capital funding. The Council receives an annual 'General Capital Funding' allocation from the Welsh Government for mandatory or corporate priority projects.*

4.1.3 Findings and recommendations that relate specifically to a particular externally funded scheme will be provided to the relevant lead officers.

4.2. Funding Letters & Acceptance

4.2.1 Any successful applications for grant funding must be formally accepted by the Council. The Grants Management Policy states that they must be authorised and signed by the Chief Finance Officer (or nominated officer) prior to formal acceptance of the grant in addition to any Directorate signatory if required.

4.2.2 A signature from the Interim Head of Finance (Chief Finance Officer) or an Authorised Finance Signatory was visible on every grant acceptance. Where an additional signature was required, these had been completed by a senior manager or Director on behalf of the Directorate. A delegated power for grant acceptance was available for each grant which did not have a Directorate signature listed.

4.3. **Governance & Reporting Structures**

4.3.1 The Auditor looked to ascertain what operational updates are provided from those responsible for grant delivery to senior management within the Council; thus demonstrating a degree of governance and reporting. Generally across the projects, there are meetings and updates provided. This varies between updates to Group Managers, Grant Teams, Project Boards and Finance.

4.3.2 One area of note was under the Active Travel and Local Transport Fund schemes where the Auditor requested whether the Strategic Transportation Planning Team Leader provides any updates within the Council (whether to managers or any Council meetings); it was advised that no updates are given regarding the scheme.

Recommendation:

Governance and reporting of the Active Travel and Local Transport Fund schemes are improved.

(Merits Attention)

4.4. **Tendering**

4.4.1 The Contract Procedure Rules list several thresholds depending on whether the purchase is for goods and services or works. Nine of the ten schemes reviewed had supplier spending above the threshold of £25,000. There are additional thresholds above this but all require advertisement on Sell2Wales or for a minimum number of prospective tenderers to be invited. The Auditor additionally looked to confirm that Corporate Procurement were involved in the exercises.

4.4.2 The Auditor's conclusion from assessment of the associated tender invitations, evaluations and delegated powers is that documentation was widely available in compliance with requirements to advertise on Sell2Wales and involve Corporate Procurement as set out in the Contract Procedure Rules. Specific points of note are discussed below.

4.4.3 Payments made to Capita Glamorgan Consultancy Limited in excess of the £25,000 tender threshold were recorded across three of the schemes assessed and proportionately these respective values equated to 20.7%, 12.3% and 9.4% of total supplier spending over the 2018/19 and 2019/20 sample period.

- Bridge Strengthening A4061 Frithwaun £206,118,
- Local Transport Fund (Bridgend to Coychurch) £79,809,
- Porthcawl Town Beach Sea Defence £233,464.

- 4.4.4 It was identified that where there is insufficient capacity in the Council, Capita Glamorgan Consultancy Limited are used as engineering consultants. This is a Joint Venture Company which includes Capita Property and Infrastructure Limited, Rhondda Cynon Taf, Merthyr Tydfil and Bridgend County Borough Councils and has been trading since 2008. The company now operates under the brand name Redstart.
- 4.4.5 Cabinet reports in 2008 outline the tender process that culminated in the creation of the joint venture agreement. The agreement, subject to clauses, is to run for 15 years from commencement in 2008 and is thus still active. The agreement gives priority to the Provider in awarding commissions for core work. The full copy of the agreement is located in the Civic Offices, which was closed at the time of the audit review, and only partial extracts from the agreement were available during the audit.
- 4.4.6 Two of the projects on which Capita Glamorgan Consultancy were involved appointed suppliers based upon tender exercises which had been assessed by Redstart (Capita Glamorgan Consultancy) directly. Confidentiality undertakings and conflict of interest declarations were completed by the Capita/Redstart officers in each of these instances.

Recommendation:

The Council notes that the Capita Glamorgan Consultancy/Redstart Joint Venture agreement draws to a close in 2023 and that appropriate steps are taken to prepare for this.

(Merits Attention)

- 4.4.7 Spend of above the tender threshold was recorded with Openreach at just over £158k on the Bridge Strengthening A4061 Frithwaun project. Where equipment/infrastructure belonging to Openreach requires alteration, only they are allowed to perform the task. The Contract Procedure Rules list under exemptions those contracts which can only be performed by a statutory undertaker and the Corporate Procurement Manager confirmed that no waiver is required in this instance. The Auditor queried the value of the payment to Openreach as this was significantly higher than other payments made throughout 2018/19 and 2019/20. The Highways Network Manager advised that this was due to the movement of Fibre Optic cables which are very expensive to deal with and required extensive re-routing/replacement.
- 4.4.8 The Innovation Funding grant only had one provider capable of meeting the service requirement. In this instance, a delegated powers form agreeing to waive the requirement for obtaining quotes or tendering was required, and these forms were available and signed by a Corporate Director. This confirms compliance with the requirements of the Contract Procedure Rules.

4.4.9 In conclusion, assessment of tender invitations and evaluations together with the documentation made available demonstrates compliance with the relevant sections from the Contract Procedure Rules – namely the involvement of the Corporate Procurement Team and advertising on Sell2Wales or completing a waiver via delegated powers. The Council makes use of Capita Glamorgan Consultancy Ltd (trading as Redstart) as engineering consultants through the Joint Venture Agreement, which is currently in place until 2023.

4.5. Supplier Monitoring

4.5.1 The performance monitoring of suppliers was demonstrated in a variety of different ways across the sample projects, this includes:

- Diary sheets maintained of site works
- Progress meetings held with the supplier
- Monitoring through working alongside the supplier directly
- Completion of monitoring sheets
- Physical visits to view progress from the supplier/partner

Every scheme was able to demonstrate in one of these ways that suppliers had not been left to undertake works without any monitoring.

4.5.2 In addition to the works above, it was noted that the Active Travel grant received revised grant funding on 30th January 2020 with a proviso that any costs associated with carrying on the project past year end would not be met by the grant. In the final quarter of the year, four payments totalling £654,662.18 were made to the supplier Centregreat Ltd. All invoices were located and no issues regarding their approval or validity were identified – all had been approved by either the lead officer (Strategic Transport Planning Team Leader) or their Group Manager in Planning and Development Services.

4.5.3 Given the final transaction's close proximity to year end, with payment made on the 13th March 2020, the Auditor followed-up on what assessment had been undertaken prior to payment approval on the 6rd March 2020. Site visit sheets for the end of February 2020 were provided by Engineering Services along with an email to the supplier assessing their invoice figures on the 3rd March 2020, thus demonstrating that the payment was made based on work undertaken.

4.6. **Partner Organisations**

- 4.6.1 The Council made payments to organisations who work in partnership and/or deliver the grant on the Council's behalf. Three of the cases were Valley's Regional Park – Parc Slip, Local Supply Chains and Local Sport & Active Recreation.
- 4.6.2 In December 2018, the Welsh Government announced that Parc Slip Nature Reserve in Bridgend would be developed as a Valleys Regional Park Discovery Gateway. The Wildlife Trust of South & West Wales have managed the site at Parc Slip over many years. In these circumstances, the grant was paid to the Council with a funding agreement put in place between the Council and the Trust. Grant Claim and Monitoring Progress forms are completed by the Trust. Evidence of spending along with bank statements are provided to the Council in order to show compliance with the terms. In addition, site visits are undertaken by the Council to view the progress on grant objectives.
- 4.6.3 A tender exercise of the Management of the Resilient Economy – Local Supply Chains (Agora) project was undertaken through the Council's Corporate Procurement Unit, with Delegated Powers signed by the Council's then Head of Service for Regeneration & Development. Following evaluation, the contract was awarded to Menter a Busnes – receiving £616k over the two year period of payments sampled.
- 4.6.4 The delivery of the grant involved Menter a Busnes promoting collaborative clusters between small and medium-sized enterprises (SMEs) across eight Local Action Group (LAG) locations in Wales. In accordance with the Project Overview included within the tender documentation, the mapping and engagement of stakeholders was undertaken by Menter a Busnes themselves. The Auditor concluded that Welsh Government's decision to award the grant to the Council demonstrated that they had no issue with this arrangement as the Council's grant application itself states that following open tender the delivery is expected to be hosted independently. The Council undertakes frequent monitoring of the grant delivery which allows it to track the project progress. However, the Council had no specific controls in place to identify conflicts of interest between the supplier delivering the grant on the Council's behalf and SMEs that were provided with support prior to the grant delivery.

Recommendation:

Where the Council engages an independent third party to deliver grants on the Council's behalf, control improvements could be made to check that the third party and their staff have no conflict of interests before undertaking the grant delivery.

(Merits Attention)

- 4.6.5 Halo Leisure Services received the largest cumulative payments from the Local Sport & Active Recreation grant at £110k, £94.5k of this relates to provision for free swimming. Halo manage the Local Authority's leisure centres and swimming pools on BCBC's behalf as per the Healthy Living Partnership. Therefore, the funding to deliver free swimming is provided to Halo as they manage Council facilities. There were changes in the way free swimming was funded nationally part way through the year but the amount that Halo were paid is consistent with the grant income received by the Council. Monitoring of the numbers participating in free swimming is undertaken.
- 4.6.6 In each of the cases where partner organisations have delivered the grants on the Council's behalf, documentation/agreements are in place and monitoring of the project delivery was undertaken. No significant concerns have been highlighted by the Auditor.

4.7. Awards to Third Parties

- 4.7.1 Townscape Heritage Initiative award grant money to third parties. Awards are based on the scheme aims to target conservation and repair of listed and other historic buildings within the Harbour and Square areas of Porthcawl. There are several independent criteria set out to support this. Grants provided are not 100%, an element of match funding is also required. A grant application pack is provided to third parties following on-site discussions.
- 4.7.2 The highest payments identified within the Auditor's creditors report was for the Apollo building, totalling £162,580 in the two year sample period; this application included a tender report from a design and planning consultant along with 3 invitations to tender for works on the project. Quantity Surveyors are used by the Council to confirm the accuracy of the applications. The priority provided to the application (if successful) are either critical, priority, key or reserve. The Council's Conservation & Design Team advised that these are agreed in discussion with the Heritage Lottery Fund who visit the area a couple of times before the bid is submitted.

4.8. Declaration of Interest

- 4.8.1 The Council Constitution sets out that Members and employees of the Council shall comply with the requirements of Section 117 of the Local Government Act 1972, the Bribery Act 2010, and the Officers and Members code of conduct set out in the Constitution in respect of the declaration of interests in Contracts with the Council. In relation to any procurement entered into by the Council, it states that such interests must be declared to the Monitoring Officer for inclusion in the appropriate

registers. Other financial and non-financial interests held by employees of the Council which could conflict with the Council's interest are to be declared to their immediate manager.

- 4.8.2 The Auditor confirmed that each of the tender exercises covered during the review, that were started from 2019/20 onwards, had declarations of interest completed. In each case, the Officers stated and signed that they had no conflicts of interest that prevented full and unprejudiced participation in the procurement exercise.
- 4.8.3 For other employees working on the grant delivery but not involved in procurement or award of contracts, declarations of any financial or non-financial interests, which could conflict with the Council's interest, should be made to an immediate manager. During this audit, officers confirmed they were aware of the requirements and no relevant informal declarations had been made in relation to these grants. However, there was strong emphasis on potential conflicts of interest being raised primarily during Officer recruitment stage. Therefore the Council could make improvements in raising awareness of the requirement for Officers to make subsequent declarations as appropriate.

Recommendation:

Awareness of the need to declare personal interests in delivering grants is raised amongst officers.

(Merits Attention)

5. Acknowledgement

- 5.1. A number of staff gave us their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.
- 5.2. The work undertaken in performing this audit has been conducted in conformance with the Public Sector Internal Audit Standards.
- 5.3. The findings and conclusion contained within this report are based on testing a sample of transactions. Absolute assurance regarding the control environment cannot be provided given the limited time to review the system. Responsibility for internal controls and the prevention and detection of fraud lies with management.
- 5.4. Any enquires regarding the disclosure or re-issue of this document to third parties should be sent to the Head of Audit via cmthomas@valeofglamorgan.gov.uk

Audit Assurance Category Code Key

The objective of an audit is to evaluate the system with a view to delivering reasonable assurance as to the adequacy of the application of the internal control system. The control system is put in place to ensure that risks to the achievement of the Authority's objectives are managed effectively.

Based upon the recommendations made, the categorisation of them and the areas that they relate to, an overall conclusion as to the level of assurance that can be provided will be given, as below:

Substantial Assurance

- Key controls exist and are applied consistently and effectively; and,
- Objectives are being achieved efficiently, effectively and economically (VFM).

Reasonable Assurance (some risk of loss, fraud, impropriety, or damage to reputation)

- Key controls exist but there may be some inconsistency in application;
- Compensating controls operating effectively; and,
- Objectives achieved after a fashion, e.g. VFM could be improved.

Limited Assurance (a high risk of loss, fraud, impropriety, or damage to reputation)

- Key controls exist but they are not applied, or significant evidence that they are not applied consistently and effectively; and,
- Objectives are not being met, or are being met without achieving VFM.

No Assurance (a very high risk of loss, fraud, impropriety, or damage to reputation)

- Key controls do not exist; and,
- Objectives are either not met, or are met without achieving VFM.