N I A O

Northern Ireland Audit Office

Investing in Partnership: Government Grants to Voluntary and Community Bodies

Report by the Comptroller and Auditor General for Northern Ireland

This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the Assembly in accordance with Article 11 of the Order.

J M Dowdall
Comptroller and Auditor General

Northern Ireland Audit Office
May 2002

The Comptroller and Auditor General is the head of the Northern Ireland Audit Office employing some 100 staff. He, and the Northern Ireland Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament and the Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

For further information about the Northern Ireland Audit Office please contact:

Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

Tel: 028 9025 1100

email: info@niauditoffice.gov.uk

website: www.niauditoffice.gov.uk

List of Abbreviations and Glossary of Terms

BRTF	-	Better Regulation Task Force
C&AG	-	Comptroller and Auditor General
COMPACT	-	Joint agreement setting out the principles of the partnership between Government and the Voluntary and Community Sector
DAO	-	"Dear Accounting Officer" letter from DFP
DSD	-	The Department for Social Development
DETI	-	The Department of Enterprise, Trade and Investment
DFP	-	The Department of Finance and Personnel
DHSS	-	The Department of Health and Social Services
DHSSPS	-	The Department of Health, Social Services and Public Safety
DOE	-	The Department of Environment
ESF	-	European Social Fund
EU	-	European Union
FAST	-	Financial Audit and Support Team
IA	-	Investment Appraisal
IFB	-	Intermediary Funding Body
LSP	-	Local Strategy Partnership
NAO	-	National Audit Office
NIA	-	Northern Ireland Assembly
NDPB	-	Non-Departmental Public Body

NIAO	-	Northern Ireland Audit Office
NICVA	-	Northern Ireland Council for Voluntary Action
NIVT	-	Northern Ireland Voluntary Trust - the Community Foundation for Northern Ireland
OFMDFM	-	Office of the First Minister and Deputy First Minister
PAC	-	Public Accounts Committee
PEACE I	-	Special Support Programme for Peace and Reconciliation in Northern Ireland and the Border Counties of Ireland 1995-1999
PEACE II	-	EU Programme for Peace and Reconciliation in Northern Ireland and the Border Region of Ireland 2000-2004
PEFO	-	Principal Establishment and Finance Officer
PIU	-	Performance and Innovation Unit
PSA	-	Public Service Agreement
SDA	-	Service Delivery Agreement
SEUPB	-	Special EU Programmes Body
SORP	-	Statement of Recommended Practice
TSN	-	Targeting Social Need
VAU	-	Voluntary Activity Unit

Table of Contents

Table of Contents

Table of Contents

Investing In Partnership: Government Grants To Voluntary And Community Bodies

Part 1: Introduction and Executive Summary

1.1 Each year, government invests around £200 million by way of grants to the voluntary and community sector in Northern Ireland[1]. The Northern Ireland Audit Office (NIAO) has a clear interest in assisting Accounting Officers to exercise the oversight which ensures that all public funding observes the principles of propriety, regularity and value for money. This report aims to help Northern Ireland Departments who work with and through voluntary and community groups, to achieve the goals and priorities of the Northern Ireland Executive as effectively as possible. It aims to:

- Define and promote minimum standards of good practice across government Departments who administer grants to voluntary and community bodies.
- Focus on key information and processes needed for proper management of these public monies.

1.2 While our report is set within the regulatory framework in Northern Ireland, we have taken account of relevant academic work, and government, voluntary and community sector good practice across the United Kingdom, in Ireland and elsewhere. A full bibliography is included at Appendix 11.

1.3 To get a more accurate measure of the voluntary and community sector's views of government grants, NIAO conducted a survey of a representative sample of 358 voluntary and community bodies in Northern Ireland. In particular, we were keen to identify what information and advice the voluntary and community sector get from government, whether this fulfils their needs, what they see as their needs, and to identify examples of good practice. The findings of the survey are summarised at Appendix 1.

1 'Consultation Document on Funding for the Voluntary and Community Sector', DSD, April 2000, page 4. This figure includes grants from Departments and their Agencies and Non-Departmental Public Bodies, European funds, and payments by way of grants from Health and Social Services bodies. It does not include payments to Housing Associations, or to other bodies for service contracts.

1.4 In analysing and reporting our findings we have taken account of evidence from individuals, government Departments, public bodies and voluntary and community groups. We have also received valuable advice from a panel of experts who each have unique experience of the sector (Appendix 2).

1.5 Part 2 reviews current policies governing the administration of government grants, and the regulatory and policy environment. Part 3, on risk management, analyses the main risks to successful partnership between government and the voluntary and community sector, specifically in relation to accountability in the regular, proper and effective use of government grants.

1.6 Succeeding sections make recommendations on various critical aspects of good grant management, as follows:

- Part 4 - better access to information and grants.
- Part 5 - performance measurement, appraisal and evaluation.
- Part 6 - financial and performance management, practical guidance on monitoring and reporting arrangements, proportionality and better co-ordination between funders.

Executive Summary

Government's Funding Strategy

1.7 The Harbison Report on Funding for the Voluntary and Community Sector[2] recognised the need for:

- better key information and performance measures;
- consolidation and implementation of adaptive change by the sector; and
- work by both government and the sector, to define the parameters of their funding relationship.

2 'Consultation Document on Funding for the Voluntary and Community Sector', DSD, April 2000.

NIAO recommends that clarity on the approach to these issues should be provided and also recognises and supports Department for Social Development's (DSD's), intention to progress speedily and steadily to establish the funding policy. This will provide a framework conducive to effective and efficient use of government grants to voluntary and community bodies (paragraph 5.2).

1.8 NIAO also recommends an overall framework co-ordinating information systems and performance measures across government.

Performance Measurement

1.9 The Executive have indicated their intention that partnership models should embrace voluntary and community as well as statutory and privately-funded activity. A key challenge for the Regional Partnership Board, to be developed in Northern Ireland by the Executive, will be to monitor the success of the partnership approach (paragraph 2.8).

1.10 NIAO recommends that a key test of the success of partnership working, and of the success of 'Partners for Change', should be whether the extra benefits that come from working in partnership are greater than the costs involved in doing so (paragraph 5.8).

1.11 Identifying the right objectives is critical to measuring the right outputs and managing risks. Some of the outputs and outcomes of the social economy, as of many voluntary sector activities, are best measured in terms of human and social capital[3]. It will be important to establish common performance measurement arrangements to capture these across government.

1.12 NIAO notes DSD's important ongoing development of key strategic performance measures for urban regeneration, for community development and for voluntary and community activity. 'Partners for Change' should report on progress and intended applications of this work, and its relevance to the funding strategy following on from the Harbison Report (paragraph 5.5).

3 See the Office for National Statistics (ONS) project to develop a framework for measurement and analysis of social capital across Government, including definitions, research base, analysis of policy outcomes: www.statistics.gov.uk/social capital.

1.13 Effective performance measurement can provide information to help Ministers ensure that public funding is focused on key areas of Executive funding, and that performance is monitored, evaluated and adjusted. NIAO considers that aspects of government's support for the voluntary and community sector, including partnerships, lend themselves to cross-cutting targets, to help Departments to focus on shared priorities and consider how funding can be used flexibly, with Departments jointly accounting for their performance (paragraphs 5.4-5.12).

1.14 Specific performance targets should be supported by business planning and related lower level targets within divisions and branches who manage funding schemes (paragraph 5.9).

Risk Management

1.15 The National Audit Office report 'Supporting Innovation: Managing Risk in Government Departments' (HC 864, Session 1999-2000), gives good practice guidance on how risk management can help Departments improve their performance (paragraph 3.7).

1.16 Risk management minimises the uncertainty surrounding innovation, by requiring the assessment of a range of options in terms of the likely opportunities for improved service delivery and programme outcomes, and what needs to be done to manage the risks associated with each option. In doing so it can provide a framework for adopting more innovative approaches and managing the associated risks (paragraph 3.2).

1.17 NIAO recommends that, where Departments are responsible for significant funding of the voluntary and community sector, Departmental Audit Committees should have a key role in oversight of such risks. While it is the responsibility of senior management to sponsor and monitor, risk management requires the continuous effort and involvement of staff at all levels (paragraph 3.8).

1.18 An integral part of risk management is recognising existing good practice, building on it and not allowing it to lapse (paragraph 3.11). In this respect, NIAO emphasises that appraisal and evaluation are important aids to risk management processes and decision-making.

1.19 The Annex to Part 3 identifies common unmanaged risks which impact adversely on two aspects of effective management of government grants, namely financial management, and relationships with the sector (Figures 1-4). It also illustrates preventive management actions (Figures 5-7). As regards financial management, see also paragraphs 1.44 and 6.17.

Access to Government Grants

1.20 The extent of publicity for, and the phasing of, particular programmes or schemes is variable. The multiplicity of schemes and funders makes the task of identifying funding opportunities particularly onerous for small or poorly resourced organisations. NIAO commends the Better Regulation Task Force's (BRTF) proposals[4], which were accepted by government (see paragraphs 2.10 and 2.11) and which underline the potential for making access more equitable by improving proportionality, consistency and transparency (paragraphs 4.6 and 4.7).

1.21 The Northern Ireland Council for Voluntary Action (NICVA) has produced a helpful CD Rom of its "Grant Tracker" information. Department of Finance and Personnel (DFP) has developed a partially interactive IT-based applications process and funding database for PEACE II, Building Sustainable Prosperity and eventually the Community Initiatives. This use of IT has potential to be more user-friendly to some applicants than a paper-based application process, and to streamline administration (Part 4, Case Study 3). NIAO acknowledges the possible need for dual running with a paper-based system to ensure groups are not disadvantaged because of inexperience in, or lack of access to, IT.

1.22 NIAO commends as an example of clear, accessible application literature, the Office of the First Minister and Deputy First Minister (OFMDFM) scheme of Funding for Minority Ethnic Voluntary Organisations (Part 4, Case Study 5).

1.23 NIAO conducted a survey which clearly demonstrated that voluntary and community bodies value prompt processing and clear timescales for decision on grant applications. NIAO notes that information on the Department of Environment's (DOE's) Rural Transport Fund for Northern Ireland provides applicants with clear

4 The Better Regulation Task Force was established in September 1997. It is an independent body that advises government on action to ensure that regulation is necessary, fair, affordable and simple to understand and administer.

timescales for acknowledging and giving a decision on applications - and guarantees to answer letters within 14 days of receiving them (paragraph 4.12).

1.24 Information gaps in grant applications must in all cases be followed up with the applicant in a timely way, so that projects do not miss out on funding, or receive inappropriate funding as a result (paragraph 4.12).

1.25 NIAO noted that the Community Fund (Northern Ireland) attributes improved monitoring returns to better, early communication with projects, before grant is awarded (paragraph 4.13).

1.26 NIAO noted some good practice regarding clear appeal procedures in several Departments - eg. in guidance notes for the DOE's Rural Transport Fund (paragraph 6.4).

1.27 To provide a proper basis for project selection, NIAO recommends that application forms should include questions on the four key criteria relevant to all appraisals of grants - economic efficiency, additionality, viability and cost effectiveness - as far as possible (paragraph 6.9).

1.28 While most Departments clearly outline the criteria for eligibility for funding under particular grant schemes, essential in the interests of equity and transparency, the process by which decisions are taken is not always properly documented. The selection panel, including members not associated with the funder, should comprise people with particular knowledge of, or expertise in, objectives and activities of the particular scheme, convened under clear terms of reference and observing principles of confidentiality and impartiality (paragraph 4.15).

1.29 Departmental funders should keep a clear record of weighting and scoring of applications, together with other papers relating to applications or appeals, for audit purposes or for verification of application and selection procedures and other transactions (paragraph 4.15).

Financial Controls

1.30 All Accounting Officers need full information on the totality of grants and funding flows for which they are responsible. Accounting systems adequately identify those funding flows and individual grant payments which are made directly to the sector by Departments (paragraphs 6.1 and 6.2).

1.31 Information on the totality of public funding of the sector is not however readily available. This makes it difficult to judge the overall effectiveness of government funding to the sector. A co-ordinated approach to Government's partnership with the voluntary and community sector requires a clearer view of total resource investment and funding flows.

1.32 All Accounting Officers need regular assurance that financial management systems are in place and working well to ensure that public funds are being used regularly, properly and effectively (paragraph 6.1).

1.33 NIAO recognises the Accounting Officer's ultimate personal responsibility for ensuring that proper grant management provisions, including good financial management, are in place, and operating satisfactorily, in Non-Departmental Public Bodies (NDPBs) and other bodies which their Department sponsors (paragraph 6.3).

1.34 NIAO recommends all Accounting Officers to keep under review the financial management systems applicable to all funds transferred to second tier funding bodies, particularly Intermediary Funding Bodies who have in the recent past exercised inadequate financial controls (paragraph 6.4).

1.35 As the Accounting Officer remains personally responsible for all monies from the European Union (EU) transferred onwards but still under his or her control, it will be important for each Accounting Officer to ensure that respective responsibilities are clear, eg. between Departmental Accounting Officers, and the Accounting Officer of the Special EU Programmes Body (paragraphs 6.4 to 6.6).

1.36 NIAO welcomes the proposed widespread availability of DFP's Structural Funds Manual setting out the main aspects of UK Structural Funds Administration, as an aid to consistency of treatment both within and between Departments and other Implementing Bodies (paragraph 6.7).

1.37 NIAO also welcomes the preparation of a European Social Fund (ESF) Promoter's Manual, to be distributed by the Department of Employment and Learning, which provides information to help groups to apply for ESF funding. It explains the funding requirements and general ESF rules that must be observed throughout the life of the funded project (paragraph 6.8).

1.38 NIAO recommends that the final version of the Northern Ireland Code of Good Funding Practice in 'Partners for Change' should address some of the main funding practicalities. The Home Office Compact 'Funding Code of Good Practice' provides a good model, subject to additional guidance, or references to appropriate guidance on appraisal, evaluation and procedures relating to capital grants (paragraph 2.10).

1.39 The Home Office 'Funding Code of Good Practice', and the 'Northern Ireland Preface to the Green Book', give practical advice on various aspects of proportionality (paragraph 6.9).

1.40 Government Accounting Northern Ireland (GANI) precludes payment in advance of need, and disallows use of government funding for profit. NIAO considers it is important that grants awarded for specific purposes should be paid in a timely manner. This may entail regular, quarterly payments, in advance, but only where the need for an advance payment is established, and subject to satisfactory evidence of a reserves policy which demonstrates that reserves are being effectively managed and are not unnecessarily being accumulated. Evidence of this type of need must be provided, before payment in advance, in the financial information submitted by the applicant. Departments and other funders should be able to demonstrate that evidence of need has been addressed in every case (paragraph 6.11).

1.41 It is a requirement that, before paying any grant, Departments must be satisfied that the recipient has the capacity to handle the public money properly (paragraph 6.12). Despite widespread levels of professionalism, some voluntary and community groups lack the particular management and financial skills or experience needed to make the best use of government grants.

1.42 NIAO recommends that practical, effective training courses should be developed and run on a regular basis, open to both civil servants and other funders, and to recipients of government grants. Such training should reinforce the key requirements of Government Accounting and European funding rules. Ideally, it should meet recognised quality standards (paragraph 6.14).

1.43 Sponsor Departments should also ensure they effectively consult on and communicate essential regulatory changes to relevant voluntary and community sector bodies. NIAO recommends regular updates, by way of circulars (documentary or electronic), training and seminars, on key regulatory and policy changes (paragraph 6.15).

1.44 NIAO recommends that Accounting Officers should have systems in place to prevent duplication, to measure whether or not the services for which the grant is payable have been delivered, to the standard required, and to prevent fraud and waste. Figures 5 and 6 of the Annex to Part 3 detail preventive actions designed to tackle important common weaknesses in financial controls. NIAO also recommends the following procedures and practical steps to support this approach within a funding Department (paragraphs 1.19 and 6.17):

- A Departmental strategy for support of voluntary and community groups, integral to business planning in the Department, and feeding into the Service Delivery Agreement (SDA) and Public Service Agreement (PSA). Based on the Departmental strategy in 'Partners for Change', this should identify resources and funding flows, services to be provided, needs to be met, and proposed outputs.
- Risk management of this strategy, for review by internal audit, and the Departmental Audit Committee.
- The Principal Finance Officer (PFO) should report to the Accounting Officer on delivery of the strategy, including regular review of:

- risk;
- communications with the sector and with other stakeholders;
- grant schemes and funding flows;
- resource use against budget profiles, and performance against target and planned outputs;
- evaluation of individual projects;
- procedures, eg. effectiveness of financial controls, application and selection procedures, multi-year and core funding grants;
- roles and responsibilities of staff;
- co-operation and dialogue between relevant branches;
- personal accountabilities - a named individual should strategically manage and report to PFO on performance and financial aspects of each major programme, scheme or project; and
- resourcing, including staff, skills and competences, training and development.

1.45 It is highly desirable that relevant desk instructions are regularly used by staff who administer grant applications and payments (paragraphs 6.21 to 6.24). An example of good practice is the Community Fund (NI) manual of procedures, which is available on its intranet, thus ensuring that updated instructions are readily and widely available.

1.46 NIAO recommends simple steps like use of a common checklist kept as part of project files to help ensure that critical stages are not overlooked (paragraph 6.25).

1.47 Where a project receives a cocktail of funding, co-operation between funders is desirable in order to reduce duplication, secure an appropriate cash flow to the project and streamline reporting requirements (paragraphs 6.26 to 6.28).

1.48 EU Structural Funds rules require a separate bank account for each funded project. However, for exchequer-funded grants, a separate bank account is not generally required - although specific management procedures consistent with accountability and Government Accounting requirements are essential (paragraph 6.10).

1.49 We recommend that the final version of 'Partners for Change' should formally acknowledge the Joint Government/Voluntary and Community Sector Forum's commitment (paragraphs 6.29 and 6.30) to:

- clear and effective employment policies, management arrangements and procedures;
- effective and proportionate systems for the management, control, accountability, propriety and audit of finances;
- compliance, by organisations that hold charitable status, with the accounting framework for charities and appropriate guidance from the Charity Commission, including guidance on political activities and campaigning;
- systems for planning and implementing work programmes;
- systems for monitoring and evaluating activities against agreed objectives;
- systems for quality assurance and accountability to service users, including complaints procedures and the involvement of users, wherever possible, in the development and management of activities and services;
- polices for ensuring equality of opportunity in both employment practice and service provision;
- the involvement of volunteers in service provision; and
- public acknowledgement of government support.

Part 2: Context

Background

2.1 The "third sector" comprises a large and diverse voluntary and community sector in Northern Ireland with an estimated 5,000 bodies, and an annual turnover of some £657 million[5]. Many groups are extremely active, and there is a common perception that the third sector is highly developed in Northern Ireland. Some bodies are highly developed in terms of organisation and purpose, and not only provide services, but also act as influencers and change agents in civil society. However, the very diversity and flexibility which characterise the sector also bring fragmentation, as new groups and organisations form, with new ways of addressing particular interests and problems. In a context of limited resources, this increases competition between groups. Rationalisation is a challenge both for government funders who may have to prioritise between competing funding bids, and for individual groups many of whom depend on a "cocktail" of funding from multiple sources. The innovative funding mechanisms of the European Union's Special Support Programme for Peace and Reconciliation 1994-1999 (PEACE I) involved local voluntary and community bodies at grass-roots level, helping to build their capacity and extend their activities. Some of these groups, which are highly effective and fulfil a useful service, are however facing recurrent funding problems. Many struggling groups, whether newly emergent or longer established, are also not only cash poor, but disadvantaged by deep-rooted problems such as lack of capacity.

The Policy Framework

2.2 On 26 June 2001 the Minister for Social Development launched the consultation policy document 'Partners for Change':

"When government Departments and the voluntary and community sector come together in the kind of practical partnership represented by the report, extraordinary things can result that will bring social and economic benefit to individuals, families and communities throughout Northern Ireland."

5 State of the Sector III - Northern Ireland Voluntary and Community Sector Almanac 2002.

2.3 'Partners for Change' is intended at once to build on, and replace, the 1993 'Strategy for the Support of the Voluntary Sector and for Community Development in Northern Ireland' (DHSS, February 1993). 'Partners for Change' also fleshes out how the Northern Ireland Compact, which is a joint policy statement of principles governing interactions between government and the voluntary and community sector, and which commits government to work for "the good health and continued growth of the sector", will be delivered across government Departments, in partnership with the sector. The Northern Ireland Compact had stated that Government would allocate resources to the voluntary and community sector "in accordance with clear objectives linked to Departmental priorities". The Compact also undertook that government would "monitor and evaluate ... use (of resources) against criteria of quality, efficiency, effectiveness, equity, sustainability and accountability"[6].

2.4 In practice, the development of funding relationships between Northern Ireland Departments, or particular areas of a Department, and the voluntary and community sector, has depended on the extent of their engagement with the sector, often by way of various government grant schemes. Some Departments have contractual relationships with particular bodies for specific services. Others award grants, after formal selection, to specific projects or ongoing activities which support the agenda laid out in the Programme for Government. 'Partners for Change' clarifies the roles of the various Departments whose functions and interfaces with the sector often overlap or interact:

- DFP, which has an overall advisory role as regards accountability, financial practices and procedures;
- OFMDFM's wider co-ordination role across government, for example as regards the workings of devolution, including co-ordinating the Executive's Programme for Government, promoting the statutory equality agenda, and human rights;
- Department of Enterprise, Trade and Investment (DETI), leading on a policy for the social economy; and
- Department of Social Development (DSD), as the recognised lead Department for partnership between government and the voluntary and community sector, and for the implementation of the Compact.

6 'Building Real Partnership - Compact between Government and the Voluntary and Community Sector in Northern Ireland' NIO, 1998, page 15.

2.5 'Partners for Change' fully reflects the Northern Ireland Executive's commitment to a partnership with the sector: "Our voluntary and community sectors have a particular strength and vibrancy. We are committed to working with them to improve the quality of life for all our people."[7]

Implementing the Compact: Partners for Change

2.6 'Partners for Change' is a draft strategy for implementing the Compact, organised in twelve Departmental sections. It is set in the context of each Department's mission and objectives, significant policy issues, and relationship with the voluntary and community sector. It is organised under three cross-cutting themes:

- Capacity building - strengthening capacity to become involved, developing and enhancing skills.
- Working together - the voluntary and community sector will be both involved and contribute to the development, implementation and monitoring of policy developments. Government and the sector will share among and between themselves good practice and work to improve communication and service delivery.
- Resourcing the sector - government will provide direct financial support and specialist advice, as well as other information and support, including help in kind.

'Partners for Change' has four stated aims:

- Shaping policy development.
- Building communities.
- Promoting active citizenship.
- Tackling disadvantage.

2.7 'Partners for Change' went out to consultation before final decisions were made on policy issues considered in DSD's April 2000 'Consultation Document on Funding for the Voluntary and Community Sector' known as "the Harbison Report". The Harbison Report recognised the need for:

- better key information and performance measures;

7 Programme for Government 2001-2002.

- consolidation and implementation of adaptive change by the sector; and
- work by both government and the sector to define the parameters of their funding relationship.

Clarity on the approach to these issues is needed to secure complementarity across and between the individual Departmental contributions to 'Partners for Change'. Without this overarching funding strategy, the overall aims and objectives of government's funding relationship with the sector will lack clarity, and arrangements to effectively implement, monitor and evaluate the Compact will be undermined.

2.8 The Harbison Report was set in the wider partnership context of joined-up government, engaging the business sector and integrated partnership approaches to local development. The Executive have indicated their intention that partnership models should embrace voluntary and community as well as statutory and privately funded activity. In England, the neighbourhood renewal approach to local partnership involvement is detailed in 'A New Commitment to Neighbourhood Renewal: National Strategy Action Plan'[8]. The Local Strategic Partnerships detailed in the English approach are mirrored to a certain extent in Northern Ireland's Local Strategy Partnerships and border corridor groups, which co-ordinate and focus public, private, voluntary and community effort at local level. A key challenge for the Regional Partnership Board, to be created in Northern Ireland by the Executive (Appendix 3), will be to monitor the success of the partnership approach.

2.9 Another major emerging area of policy relates to support for the social economy in Northern Ireland on which DETI conducted a major consultation during 2001. Some of the outputs and outcomes of the social economy, as of many voluntary sector activities, are best measured in terms of human and social capital, and it will be important to establish common performance measurement arrangements across government to capture these within the overall 'Partners for Change' strategy. (Paragraph 5.5 refers to relevant ongoing development of performance measures, being led by DSD.)

8 Report by the Social Exclusion Unit, Cabinet Office, January 2001.

Regulatory Environment: Funding Guidance

2.10 'Partners for Change' includes a draft Funding Code of Good Practice, intended for funders and funded bodies alike. This draft Funding Code of Good Practice is useful as an introduction to types of government grant, and general principles of good financial and performance management. By reason of its lack of specificity, such a Code could however be of limited practical help to Departments or funded bodies. The English Code of Good Practice on government funding of the voluntary and community sector, produced by the Home Office and the Cabinet Office, together with the Working Group on Government Relations Secretariat representing the voluntary and community sector, is more specific. However, it omits reference to the critical importance of proportionate economic appraisal in all funding decisions. Intended for read-across to regional Codes[9], it describes and recommends practices consistent with Compact principles, and with good stewardship of public funds, although it should be read in conjunction with more detailed guidance eg. on project appraisal and evaluation. The Code outlines the policy context, gives guidance on types of grant, and provides sample checklists and clear explanations for particular controls and procedures. Its revised "Standard Terms and Conditions for Home Office Grants" provides a useful model - see Appendix 10. BRTF welcomed this Home Office Code.

2.11 BRTF had conducted a review of the regulatory framework and examined the administrative red tape that inhibits voluntary bodies' access to funding. Its report, 'Access to Government Funding for the Voluntary Sector', (1998), is intended to help Departments reflect on how they implement the Compact principles. It makes recommendations for:

- improving proportionality and targeting - funding rules should allow risks to be balanced against wider policy objectives, and auditing requirements made proportionate to the risks involved. They should also allow for co-operation between groups sharing an expertise or serving common client groups and support capacity building within organisations;
- improving consistency - government Departments should devise a common application form. Payment terms should be consistent - BRTF recommended quarterly in advance. A

9 Jack Straw, Home Secretary, quoted in Cabinet Office Press Notice 15 March 1999 'Response to Charity Funding Review': "The Code of Good Practice (on funding) will apply to central Government Departments, including Government Offices for the Regions, and 'Next Steps' Executive Agencies".

common approach to record-keeping should be agreed eg. required period for retention of management records/accounts. Standard thresholds should be set for simplified accounting and audit requirements; and

- improving transparency: a common, internet-accessible directory of grants should be devised, including criteria for access, timescales, and support available for applicants. Local authorities should co-operate in a similar exercise. Application procedures should be more transparent and accessible, with published invitations to apply, and a simple, widely available appeals procedure. Departments should co-operate in timing of grants, and thereby improve phasing of funding. Good practice guides to support the Compact should be developed and published in formats which would apply equally to Local Authorities, NDPBs and EU funding.

2.12 Through its Funding Code of Good Practice, the Home Office fulfilled its undertaking that the BRTF's recommendations would be reflected in a Code to apply in the first instance to central government Departments, government offices for the regions, and Next Steps Agencies. The Code faithfully conveys much of the spirit and the detail of the BRTF report's considerations and findings. NIAO recommends that the final version of the equivalent Northern Ireland Code in 'Partners for Change' should address some of the main funding practicalities with comparable clarity and detail.

EU Funds

2.13 Performance and financial monitoring and control arrangements for EU funds are tightly prescribed in European Community rules. A good regulatory model has been developed around the extensive EU funding allocations to Northern Ireland, which sits easily alongside existing government accounting arrangements. They both derive from a common commitment to maximising the impact and safeguarding of public funds.

Published operational programmes (OPs) include clear guidance on the rationale underlying funding, and the use of evaluation eg. to identify ongoing progress towards objectives, against a baseline position. The OPs also clarify roles and responsibilities of various agents, including accountable Departments, "managing authorities" responsible for the efficiency and correctness of management and regulation, and "implementing bodies" who issue offers of grants and receive payment claims from the final recipients. DFP also makes available detailed guidance for those involved with EU Structural Funds (paragraph 6.7).

However, the detail and quantum of information required imposes a considerable burden both on funded projects, and those bodies responsible for managing and administering the funds. It could be argued that application of the EU model has not had the intended effects on the ground, as evidenced by reports by the Comptroller and Auditor General for Northern Ireland included in Appropriation Accounts 1997-98 and 2000-01.

Charities Regulation in Northern Ireland

2.14 In England and Wales, the Charity Commission has both regulatory, scrutiny and advisory roles. Its published aim, "to maintain public confidence in the integrity of charity", has three main elements:

- to ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework;
- to improve the governance, accountability, efficiency and effectiveness of charities; and
- to identify and deal with abuse and poor practices.

2.15 There is a strong parliamentary expectation that the Charity Commission will maintain an effective scrutiny of registered charities in England and Wales, and the body has been the subject of several reviews by the Committee of Public Accounts at Westminster. The Charity Commission publishes and regularly updates detailed guidance on both practical and technical aspects of charities' governance and administration, eg. on setting up a charity, charities' governance, duties of trustees, trustee investments, and on the Statement of Recommended Practice (SORP 2000) on accounting by charities. Charity Commission staff include accountants and legal advisers who will respond, within Charter timescales, to specific enquiries from individual charities.

2.16 DSD is the charity authority for Northern Ireland. Its main functions range from consent to the disposal of land or buildings by charity trustees to guidance on setting up and running a charity in Northern Ireland and informal advice to trustees and their solicitors. There is no charities register, no systematic monitoring of reports or accounts, and generally a light regulatory regime for charities in Northern Ireland. Compared with other regions of the United Kingdom, the charities sector in Northern Ireland is relatively small (Appendix 4). However, it would be difficult to identify the nature and extent of the risks of such light regulation, including less obvious risks, eg. from "rogue" charities setting up here, without better information. DSD told us it is committed to a full review of the position, in the light of findings of the recommendations arising from the report on charity law by the Cabinet Office's Performance and Innovation Unit, which is due to be published shortly. NIAO recognises the importance of the DSD exercise in securing a modern, coherent and enabling regulatory framework for charities in Northern Ireland.

Accountability

2.17 Departmental Accounting Officers are accountable to the Northern Ireland Assembly (NIA) for proper, regular and effective spending, by way of government grants, from the funds for which they are answerable - even where these flow through NDPBs, partnerships or Intermediary Funding Bodies (Appendix 5). Successive years' audits of the accounts of Northern Ireland Departments have disclosed, in some areas, that grants to voluntary and community bodies are often associated with risks to propriety, regularity and value for money. The next section of our report therefore considers risk and offers guidance on risk management, specific to government grants to voluntary and community bodies. Much of this guidance relates to financial management procedures (Part 6 gives more detail), and how they can help Departments manage grants more effectively and efficiently.

Part 3: Risk Management

What is Risk Management?

3.1 In respect of government funding, risk is the likelihood of something happening which may have an impact on the achievement of government objectives. Risk management therefore means the structure, process and culture directed towards identifying and managing potential opportunities for and threats to the achievement of government objectives.

3.2 Risk management can help minimise the uncertainty surrounding innovation:

"Risk management requires the assessment of a range of options in terms of the likely opportunities for improved service delivery and programme outcomes, and what needs to be done to manage the risks associated with each option. In doing so it can provide a framework for adopting more innovative approaches and managing the risks associated with them"[10].

3.3 If inappropriate objectives are identified, or if key objectives are overlooked, then the effort of risk management is likely to be misdirected (see also paragraph 5.1). Given clearly identified objectives, risk management enables a practical and business-orientated approach to ensuring that objectives and outcomes are met, and services provided to agreed standards of quality, time and cost. Risk management also helps identify and prevent problems which will hamper achievement of objectives, including waste, fraud, irregularity or impropriety.

3.4 The Right Honourable David Davis MP, the former Chairman of the Committee of Public Accounts at Westminster, has identified poor control and lack of grip as a generic problem in risk management, where various government projects were not completed to time or specification. Speaking at a National Audit Office seminar on risk management in March 2001, he said:

"Risks should be identified at the outset, where appropriate drawn to the attention of Ministers, and managed head on. We expect Accounting

10 'Supporting Innovation: Managing Risk in Government Department's, NAO, 2000.

Officers to have a clear understanding of and firm grip on the major risk areas. The importance of management grip cannot be overstated".

Government Grants to Voluntary and Community Bodies

3.5 No two Departments have identical risk profiles. It is important that each Accounting Officer has a clear view of, and adopts appropriate responses to, the particular type and level of risk which applies to their Department's funding of the sector. For some Departments, the scale and nature of their involvement with the voluntary and community sector is critical to achieving their objectives. As far as DSD is concerned, policy development has a potential impact on both Departmental and cross-cutting Executive priorities. For some Departments, core funding will be an important issue. For DFP, the Special EU Programmes Body (SEUPB), and other Departments, performance of Intermediary Funding Bodies (IFBs) under PEACE II will require continuing attention.

3.6 For many Departments and public bodies the amount of money distributed by way of grants to the sector is small. However, government's total investment is some £200 million each year to which most Departments contribute. Departmental involvement with the sector is however often dispersed across several divisions, and within individual branches the administration of a grants programme may be a small component of the overall workload. In these circumstances, there is a risk that managing and monitoring grants receives little attention. The training required to equip staff and streamline procedures also risks being accorded a low overall priority. An overall Departmental strategy for funding of the sector can facilitate proper management of the associated risks, ensure an appropriate priority for expenditure controls, and promote consistency of good practice. Where Departments are responsible for significant funding of the voluntary and community sector, Departmental Audit Committees potentially have a key role in continuous management of risks to such a strategy. Effective Departmental Audit Committees are major determinants of corporate governance and risk management within the Department. They can help secure better outcomes from grant programmes, as demonstrated by the Department of Employment and Learning's experience.

Case Study 1: Corporate Governance in the Department of Employment and Learning (DEL)

DEL's Audit Committee reviews reports from the Financial Audit and Support Team (FAST) within the Department. FAST has a particular role in monitoring and reviewing IFBs in receipt of European Structural Funds. The FAST reports have helped promulgate good practice, identified key weaknesses, given examples of where they have occurred, and made recommendations for remedial actions. In auditing these funds, NIAO has commented that: "FAST plays an important and effective role within the Department's overall control framework". NIAO has also emphasised how important it is that FAST inspection reports are subject to prompt follow-up action. The Audit Committee has a key role here, in reviewing progress in implementing accepted FAST recommendations.

Managing the Risks

3.7 Relevant guidance on risk management for public bodies is available in the National Audit Office report, 'Supporting Innovation: Managing Risk in Government Departments' (August 2000), which summarises how risk management can help Departments improve their performance within six wide areas of activity:

- Better service delivery.
- Managing change.
- More efficient use of resources.
- Better project management.
- Minimising waste, fraud and poor value for money.
- Innovation.

3.8 The National Audit Office (NAO) analyses various examples of technical approaches. These are illustrated by case studies, ranging across financial, statistical and qualitative assessment and modelling (Appendix 6). Overall, the report emphasises that risk management is neither a one off exercise, nor the responsibility of junior management or Internal Audit. While senior management has a responsibility to sponsor, promote and lead risk management, it requires the continuous effort and involvement of staff at all levels in Departments.

3.9 Because of the diversity of engagement across Departments, we do not intend to recommend any one model of risk management for Departments as regards grants to voluntary and community bodies. However, our investigation has identified common, recurring weaknesses, which may be represented as important unmanaged risks. To help manage these, we will therefore propose a number of possible actions and preventive measures for Departmental staff. The Annex to this Part refers.

3.10 Many of these risks (Figures 1-4) and particular actions to minimise or avoid them (Figures 5 and 6) may be more relevant to some Departments than others. It is for each Department to weigh the resource implications of suggested preventive actions, against the anticipated benefits and the potential impact of the risks.

3.11 An integral part of risk management is recognising existing good practice, building on it and not allowing it to lapse. Investment appraisal and evaluation are both potential sources of good practice information. Appraisals forecast and evaluations report substantively on the outturns of a project, programme or policy. Adequate appraisal, monitoring and evaluation should therefore also provide analysis on which projects are successful (or not), and why, and thus inform Departments' risk management.

3.12 Figure 7 of the Annex[11] provides initial guidance on how the external auditors will test the adequacy of financial controls for PEACE II. NIAO commends this as a useful reference document to inform Departments' risk management processes at day to day working level, particularly concerning grants or transfers under EU Programmes such as Building Sustainable Prosperity and PEACE II, and Community Initiative Programmes.

11 Figure 7 summarises the main audit requirements and suggested audit tests as identified by the joint external auditors of the SEUPB. These audit tests can however also be used as a checklist by Departmental managers, to satisfy themselves of the robustness of systems for which they are responsible, whether within branches or other bodies which administer grants.

Managing the Risks - An Illustrative Approach

1. While risk profiles will inevitably vary across Departments, the most common risks are often similar. By way of illustration, this annex reviews common unmanaged risks which impact adversely on two aspects of effective management of government grants, namely financial/performance management, and relationships with the sector (Figures 1-4), and offers illustrative, preventative management actions (Figures 5, 6 and 7).

- Figure 1 summarises the most frequent control failures in administration of government grants to voluntary and community bodies, identified through our audit work in the last six years.
- Figure 2 sets out the problems experienced by voluntary and community groups who have recently applied for or received government grants. This is based on the main findings from our survey of voluntary and community bodies in Northern Ireland, summarised at Appendix 1.
- Figure 3 presents these aspects of risk in an analysis focused on particular stakeholders, groups or bodies who have a direct responsibility for managing particular aspects of these risks.
- Figure 4 identifies potential consequences of continued failure to control these risks.
- Figures 5 and 6 outline illustrative preventative measures.
- Figure 7 summarises the main audit requirements and suggested audit tests as identified by the joint external auditors of the SEUPB. These audit tests can also be used as a checklist by Departmental managers to satisfy themselves of the robustness of systems for which they are responsible.

Figure 1: Persistent Control Failures: Government Grants to Voluntary and Community Bodies, 1995-96 to 2000-01

Department fails to operate transparent, equitable selection procedures:

- Insufficient evidence to support funding decisions.
- Investment appraisal techniques not applied to expenditure decisions.

Department places undue reliance on IFB:

- Inadequate oversight of financial and management control exercised by IFB.

Departmental procedures inconsistent with ensuring regularity, propriety and value for money:

- No letter of offer/contract, no record of terms and conditions of grant.
- Failure to use appropriate, timely expert advice (eg. legal, construction).
- Duplicate funding.
- Inadequate letter of offer (eg. no clawback conditions, failure to establish access rights for audit and for C&AG).
- Payments made to individuals instead of approved group.
- No action plan to remedy weaknesses disclosed by audit or inspection.
- Ineffective monitoring of projects:
    - x Grant payments made without verifying compliance with conditions.
    - x Grant payments made before problems have been resolved or progressed.
    - x Stage payments made without required progress reports.
    - x No or infrequent visits to check progress or operation of project.

- x Misattribution of costs/funds not detected.
- x No scrutiny of or action on accounts or reports submitted by funded project.
- x Non-compliance with letter of offer/contract not detected.
- x Failure to segregate duties not detected.

- Funding in advance of need.
- Funding in excess of need.
- Inadequate segregation of funding (funds from two or more sources kept in one bank account, without clear supporting records which attribute transactions to the appropriate funder).

Departmental staff lack skills/experience:

- Inconsistency in the interpretation of EU funding procedures.
- Conflict of interest not challenged.
- Staff unaware of procurement procedures.
- Staff unaware of guidance eg. with respect to excessive hospitality.

Poor service to funded bodies:

- Poor communication (eg. conflicting messages from different staff) with funded project.
- Inadequate liaison with other funders in all aspects of projects, including timing of payments.

Figure 2: Risks to Customer Service Identified through Survey of Voluntary and Community Bodies in Northern Ireland, July 2001

Access to Grant Aid:

- Inadequate publicity.
- Objectives of funding scheme not clearly communicated.
- Lack of clear guidance at an early stage in application process.
- Potential disadvantage to groups who are less experienced, less well resourced, or groups who do not already have access to funders.

Application Process:

- Application procedures complex and costly.
- Application procedures lack uniformity across different funders.
- Too much information sought for some small grants.
- Lack of clarity and promptness on timing of decisions.

Reporting and Monitoring:

- No apparent consistency between funders.

Multiple Funders:

- Two thirds of the 358 organisations who responded to our survey had received government grant within the financial year, from a diversity of organisations where no single funder predominated.

  Their main difficulties were:

  x Excessive demands on staff time.

  x Confusions around variable criteria and conditions.

  x Poor communication between funders on phasing of payments.

Communications:

- Ratings varied from excellent to poor.
- Poor performance on:
    - What schemes are available.
    - Rationale for schemes.
    - Clarity and promptness of funding decisions.
    - Outputs required.
    - Feedback from the funder on how well the project has delivered.

Figure 3: Major Risks to Main Stakeholders

Lead Departments:

- Objectives of government's partnership with voluntary and community sector not clear.
- Poor information systems.
- Inequitable grant application and selection procedures.
- Lack of coherent performance measurement.
- Lack of coherent direction - each Department acting in isolation.
- Overlapping policy responsibilities.
- Inconsistent regulatory framework - tight on financial procedures eg. EU funding, individual capital projects. Less stringent as regards recurrent exchequer funding.

Accounting Officers:

- No coherent approach to publicising grant schemes - risks to equality of access, propriety, regularity and value for money.
- Failure to act in a co-ordinated way to rectify acknowledged common underlying weaknesses eg. identified in successive years' audit reports.
- Inappropriate abdication of accountability[13] to NDPB or IFB, with inadequate overview by the Department of financial and performance systems[12].
- Lack of strategic management at "whole Department" level (paragraph 6.17).
- Ineffective remedial action following internal audit and other reports.

12 See Appendix 5.

Departments, Funding Bodies, Projects:

- Failure to establish and implement essential performance and financial management practices, controls and procedures.
- Failure to evaluate on an ongoing basis and amend performance accordingly.
- Failure to evaluate jointly with other funders, to avoid duplication of effort, double count of outputs, etc.
- Inadequate funds.
- Ineffective corporate governance.
- Skills/experience shortage.
- Poor leadership.
- Poor communication, leading to misunderstanding of roles, responsibilities and intentions.

Partnerships or shared projects:

- Lack of clarity regarding roles, responsibilities, relationships and objectives.
- Cultural differences and/or failure to understand each other's priorities.
- Weak corporate governance.
- Inadequate monitoring and evaluation of partnership achievements.
- Ineffective or inactive groups in a partnership.
- Tensions between individuals or groups in a partnership.
- Changes in the status/competence of the recipient which would adversely affect their ability to carry out or complete project work.
- Actual or perceived conflict of interest.
- Unapproved variations to projects.

Figure 4: Potential Consequences for Stakeholders of Failure to Manage Risks

Lead Departments and Accounting Officers:

- Theft or fraud, eg. profits generated and used for private gain or purposes other than those intended by the funding Department.
- Breach of equality obligation.
- Waste, eg. duplication, resources not targeted on objectives or priorities.
- No recourse to clawback.
- Lack of compliance with legislative requirements eg. equality legislation, companies law, health and safety at work regulations, employment law, law relating to children.
- Double funding.
- Reallocation of funds to purposes other than those intended by the funder.
- Qualification of accounts.
- Public Accounts Committee (PAC)/Northern Ireland Assembly (NIA)/public criticism.

Departments, Funding Bodies, Projects:

- Failure to achieve objectives and targets.
- Poor or inappropriate project selection.
- Wasteful use of resources.
- Lost opportunities, eg. unwillingness to fund unusual projects.

- Damage to reputation of an organisation, team, client group or activity.

- Breach of trust.

- Damaged relationships.

- Little acknowledgement of funders in publicity material.

- Events/projects in breach of letter of offer conditions.

Funding Bodies and Projects (including organisations and partnerships):

- Lack of market awareness and customer focus.

- Failure to achieve objectives and targets.

- Failure to secure funding for an activity which is key to the group's purpose.

- Poor staff morale and welfare.

- Poor quality services.

- Breach of charity law.

- Illegal or antisocial activities.

- Criminal, employment or civil prosecution under the law.

- Removal or clawback of resources.

Figure 5: Managing the Risks: Preventative Measures by Stakeholders

Lead Departments:

✓ Develop strategy, including objectives, in partnership with the sector.

✓ The Principal Finance Officer to manage support for the sector as an "all Department" activity. Set clear Public Service Agreement/Service Delivery Agreement objectives and supporting targets which will cascade into operating plans and targets. Monitor, evaluate and review with branches on an ongoing basis, including performance and financial management procedures.

✓ Work with the sector and key Departments to review central guidance, information and training provision.

✓ Incorporate strategy for the sector into Departmental risk management programme, for regular review by the Audit Committee.

✓ Clarify, and keep under review, roles and responsibilities of Departmental staff.

✓ Regularly review:

- communications with the sector;
- resourcing of the strategy (staff and skills, training and development); and
- working practices - introduce and keep under review, standardised core training, and procedural guidance.

✓ Personal accountability - named individual to strategically manage performance and financial aspects of each major scheme or project.

Partnership Managers and Members:

✓ Secure mutual acceptance of ethical or cultural norms and differences.

✓ Develop a shared vision.

- ✓ Agree aims and objectives.
- ✓ Identify roles, responsibilities.
- ✓ Maintain effective corporate governance throughout the life of the project.
- ✓ Monitor and evaluate performance, consistent with your organisation's overall involvement in the programme (eg. against objectives in your Department's PSA).
- ✓ Regularly and frequently maintain and work at all aspects of the partnership.
- ✓ Continuously measure actual costs and benefits, challenging the continuing need for a particular partnership. Identify and implement essential changes.

Departments, Funding Bodies, Projects (including organisations and partnerships):

- ✓ Agree objectives.
- ✓ Secure commitment from all partners to the principles of accountability, propriety, regularity, value for money.
- ✓ Senior Management to check that the Department, IFB or project:
  - establishes and implements essential performance and financial management practices, controls and procedures; and
  - evaluates and amends performance on an ongoing basis with reference to appraisal/ex ante evaluation, and jointly with other funders. If you have oversight responsibility, exercise it!
- ✓ Check that Departmental procedures support good access.
- ✓ Make sure all essential core and/or match funding is in place before releasing payments or starting the project. Secure copies of letters of offer from all funding sources.
- ✓ Secure access for audit and verification teams.
- ✓ Take action on the findings of audit/monitoring, etc. reports.

Figure 6: Government Grants to Voluntary Bodies: Preventative Recommendations - Divisional Staff Responsible for Existing Grant Schemes

1. You and your staff must be familiar with:

   - Government Accounting.
   - DFP's Structural Funds Manual (paragraph 6.7 refers).
   - EU Structural Actions 2000-2006 - Commentary and Regulations.
   - Relevant Dear Accounting Officer (DAO) and Dear Principle Finance Officer (PFO) Circulars (including those at Appendix 12).
   - Departmental schemes and their conditions and directions.
   - Compact, 'Partners for Change'.

2. If you are uncertain about any of these, query with the issuing branch, your Departmental finance branch or with DFP, as appropriate.

3. Arrange formal training in grant management, if you or your staff need it.

4. Clarify the aims and objectives of your scheme, and how you will fund and evaluate it within your PSA/SDA (Part 5 refers).

5. Check that your grant scheme is consistent with your Department's Equality Scheme and New Targeting Social Need (TSN) Action Plan.

6. Take advice from the Voluntary Activity Unit (VAU) on content and format of application and monitoring forms, and potential IT applications. Consider using your Departmental website to publicise and for interactive application procedures. Because many applicants may be inexperienced in internet technology, also publish through local press, community centres, libraries, etc, and have paper applications as well.

7. Your advertising and application procedures must be transparent and accessible, and should include clear commitments to timing of decisions, and guidance on appeal procedures (Part 4 refers).

8. Check DAO 7/89 - legally enforceable clawback conditions must be included in the letter of offer. Do you need legal advice on these (eg. paragraph 6.22)?

9. If you need expert advice (eg. solicitors, architects, Valuation and Lands Agency, quantity surveyors) get it at the right time eg. after first sift, in advance of appraisal and selection, and cost-effectively. Communicate/ consult with other funders.

10. In early negotiations, before awarding grant, you should agree with the project sponsors, which of their staff need to be familiar and comply with specified, essential legislative requirements eg. equality legislation, companies law, health and safety at work regulations, employment law and law relating to children. Include these in Letter of Offer.

11. Ensure that the groups you propose to fund have the capacity to meet appropriate standards of administration before awarding funds. This should be regularly checked, where appropriate during site visits.

12. Hold a funding seminar and brief groups on your monitoring and reporting requirements, before you issue the Letter of Offer.

13. Your Letter of Offer, monitoring and reporting procedures should enable you to satisfy yourself that, in all the projects you fund:

    - All activities are legal and acceptable.
    - Corporate governance is effective.
    - Activities are market aware and customer focused.
    - Services and facilities are of good quality, and meet all relevant regulatory standards, including EU requirements.
    - Staff are adequately trained and skilled and there is good staff development policy/practice.

14. Set financial and performance objectives and targets and monitor them on a quarterly basis. Meet with the project sponsors and agree and check they have taken immediate remedial action if there is a variance from profile/target.

15. Require your funded groups to declare and seek guidance on how to deal with multiple funding. If there is a cocktail of funding, a lead body should negotiate with the other funding partner(s) and agree a decision (Part 6, case studies 7 and 8).

16. Funded groups must never reallocate funds to purposes other than those intended by the funding Department(s). If the funds are no longer needed for these purposes, they must be surrendered to the funding Department(s), or their application agreed in advance with the Department(s).

17. No profits should be generated, including interest earned, unless agreed in advance, and their use agreed, with the funding Department. Any unintentional interest/profit must be disclosed and surrendered or its application agreed, in advance, with the funding Department. All such receipts should be treated as accruing resources and so identified for Estimates and Departmental accounts purposes.

18. All suspected fraud and theft must be immediately reported to the funding Department for investigation and decision.

19. Establish procedures for regular audit and review - communicate with other audit/verification units, to secure complementarity.

20. Letters of Offer must require that all activities should be open to regular audit and verification activity, to help prevent, identify and tackle problems.

21. Core funding - clarify, during all negotiations, that there is a need to have an exit strategy in place and that, at the end of the term, renewal will be subject to a critical evaluation of the continued need for the service, and the most cost-effective way to provide it.

Figure 7: Main Audit Requirements and Suggested Audit Tests for PEACE II[13]

1. Audit Requirements

Departments:

- Accountability for expenditure remains with the Department.
- Departments should work together to secure economy of resources.
- A proper documented framework should be in place to underpin the approach for distribution of EU monies.
- IFBs should have clear measurable objectives and targets before funding commences.
- IFBs should be clear on the monitoring and control arrangements being established by the Department.
- A documented programme of visits to projects, and to IFBs, should be prepared by the Department.
- Ensure monitoring and control arrangements are being strictly adhered to.
- Sound risk assessment is needed in verification, audit planning and sampling.

Intermediary Funding Bodies:

- Clear, well documented selection and appeal procedures should be properly communicated to all interested parties.
- Accounting and information systems should allow for tracking of individual projects.

13 As identified by the joint external auditors of the Special EU Programmes Body, the Northern Ireland Audit Office and the Office of the Comptroller and Auditor General Dublin, in January 2002.

- Letters of Offer should be clear and if possible reasonably uniform. Essentials for inclusion are:
    - clear description of project so there is no possibility of using money elsewhere;
    - funding procedures clearly stated;
    - control and monitoring procedures clearly stated;
    - specific access rights for auditors; and
    - clawback provisions.
- IFBs should be able to demonstrate adherence to monitoring and control procedures including examination of financial records and visits to projects to assess performance.
- All IFBs shall ensure that all financial or other records including those of all recipients of funding are maintained and kept safely until 31 December 2015[14].

2. Audit Tests

Audit Tests - Expenditure Returns

Perform checks to ensure that project expenditure:

- Is eligible.
- Is consistent with the objectives of the Programme.
- Represents only amounts already paid - not accruals or estimated future spend.
- Has been paid within the eligible period.
- Meets public procurement requirements.
- Meets EU and government publicity requirements.

And that:

- A satisfactory audit trail exists.
- There has been no overlapping or duplication of EU and other funding assistance.

14 'Structural Funds Manual' DFP, January 2002 (page 86).

- Separate bank account and accounting systems (including separate account codes or computer file) are kept for the project.
- Evidence of receipt of funding by the final beneficiary is available.
- The same expenditure is not claimed more than once - ensure original and not copy receipts are available and are endorsed with funder's stamp/seal.

Audit Tests - Project Application and Selection

- Are all applications for project funding recorded centrally?
- Is responsibility for assessing applications clearly allocated within the Body?
- Are all applications appraised to determine their compatibility with the objectives of the Programme and relevant Measure?
- Are selection criteria clearly set out and made available to all applicants?
- Are the results of such selection recorded and kept with the reasons for acceptance/rejection clearly set out?
- On what basis are projects prioritised by the Body? Is each project approval supported by a rationale for giving that project a higher priority than other projects, eg. weighting and scoring matrix?

Audit Tests - Project Approvals

- Has an appropriate appraisal been carried out?
- Is there a suitably qualified, clearly impartial body designated to decide on applications?
- Are there controls in place to ensure projects are not double funded?
- Is the approval decision documented?
- Does a formal notification of approval issue?

- Is the approval set out in a mutually binding legal agreement, or appropriate Letter of Offer, between Implementing Body and the Final Beneficiary/Recipient?
- Have both parties signed before issue of funds?
- Does the Implementing Body set targets in respect of completion dates, costs and performance measures, etc?

Audit Tests - Monitoring

- Are procedures in place and working to ensure that the Body receives regular and sufficient reports on the financial and performance/physical progress of the project?
- Do these reports set out:
    - all the objectives of the project;
    - performance indicators as agreed at approval stage;
    - actual performance measurements; and
    - financial information, with appropriate supporting documentation?
- Are financial reports compared with budgets?
- Where progress is unsatisfactory, are procedures in place to remedy? If so, are the procedures working?
- Is someone clearly responsible for monitoring?

Audit Tests - Other

- System to record receipts and payments.
- Accuracy and regularity of claims and payments.
- All irregularities are reported, promptly.
- System of controls is subject to Internal Audit review.
- Senior management/Audit Committee overview.
- External audit findings reported to all stakeholders - and necessary actions taken.

- Large capital projects.
- Adherence to EU/public procurement procedures.
- Procedures for use of consultants.
- Publicity requirements.

Part 4: Access

Background

4.1 Our survey indicated that there are problems, particularly for smaller groups, in accessing government grants. NIAO considers that all Departments should seek to ensure equitable access to government grants for voluntary and community bodies. Section 75 and Schedule 9 of the Northern Ireland Act 1998 place a statutory obligation on public authorities, ie. Northern Ireland Departments, most NDPBs, District Councils and other bodies designated by the Secretary of State, to carry out their functions relating to Northern Ireland with due regard to the need to promote equality of opportunity.

4.2 Also, access arrangements should support the Executive's 'New Targeting Social Need' (TSN) policy, which is about administering programmes and services so that they are organised and delivered in ways which are more helpful to disadvantaged people and groups. The EU Special Support Programme for Peace and Reconciliation 1995-99 (PEACE I) showed how delivery mechanisms could be better targeted on the needs of the voluntary and community sector, by encouraging marginalised groups to participate actively in productive social processes and relationships. The IFBs appointed to administer grants were judged, because of their proximity to the final recipients, to be uniquely placed to distinguish those projects which best met the needs of these groups.

Case Study 2: Better Access to PEACE I Funding Opportunities

The Northern Ireland Voluntary Trust - the Community Foundation for Northern Ireland (NIVT) ran workshops and open forums, and successfully provided developmental support to communities who wanted to make applications under PEACE I. NIVT claim this has not only helped groups to identify their needs, but in the longer term, to develop the capacity to design and become involved in practical, lasting solutions.

Problems

4.3 Despite some evidence of good practice, our survey clearly highlighted persistent problems, with a widespread perception that government did not do enough to secure transparent and equitable access arrangements (Appendix 1, paragraph 40 onwards). Information on government grants is derived from a variety of sources, although relatively informal methods tend to predominate, so that access could become disproportionately a function of an organisation's networking competence.

4.4 While 46 per cent of the respondents considered enough was done to encourage initial approaches from prospective applicants, 21 per cent were of the opposite view, and 25 per cent considered that government could provide better updates on grants available to the voluntary and community sector. Inadequate publicity, and a lack of clear guidance sufficiently early in the application process, were the main difficulties they identified. Almost half of all respondents required external help with their funding applications.

4.5 Despite the continuing effort of New TSN, and the extent of penetration of PEACE I funding, there are still examples where an otherwise eligible project is advanced by a group which lacks the capacity to oversee it. One of the team leaders in the Belfast Regeneration Office spoke of the groups who still never reach the stage of completing an application form, whether because they simply do not know funding is available, or because the application process seems too difficult. She saw her "brokerage role" as adding real value, not only in terms of facilitating contacts at community interfaces, but also between communities and various government Departments and funders. "Signposting" groups to the right funder, or to an organisation which could help with capacity building, including training, was one important aspect of this role (paragraphs 6.12-6.14).

Good Practice

4.6 The BRTF recommendations (see paragraph 2.11) underlined the potential for simplifying access, by better co-ordination and consistency. They recommended a well designed, regularly updated, common and internet-accessible directory of grants, including criteria for access, timescales and support available for applicants. They supported application procedures which have published calls for application, and a simple, widely available appeals procedure. In Northern Ireland, there is no single, published source of guidance on government grant programmes - the Home Office accepts that the government should publish such a guide, updated annually[15].

Case Study 3: Information on Sources of Funding

> The Northern Ireland Council for Voluntary Action (NICVA) has produced a CD Rom "Grant Tracker" detailing the main sources of funding and details of funding programmes currently available to voluntary and community bodies in Northern Ireland. This sort of approach could provide the basis for a website, regularly updated by government Departments and accessible to anyone, which would provide details and contact points for all current funding opportunities. Ideally, this page would be fully interactive, and would be supported by helpdesks within Departments/funding bodies. Due to the inexperience of many potential applicants in internet technology, publicity via the local press, libraries, community centres, etc, and paper-based application processes will also still be required for the time being.

4.7 Most public funders - Departments, NDPBs, IFBs, Boards, Trusts, etc - compile and circulate policy and grant information to target groups through the local media, local libraries and community centres. Many funders already issue calls for application via their website. The New Opportunities Fund website also publishes details of grants awarded. DSD is currently developing proposals for a single database owned and supported by all Departments, to support a common grant application, selection and awarding process. The proposed funding database will have a module detailing available government funding which could then be passed for inclusion in NICVA's Grant Tracker software. In addition, this information should be available free of charge on a government website as many potential applicants may initially look there.

15 'Funding: a Code of Good Practice' Home Office, 2000, paragraph 7.1

4.8 DSD told NIAO that their funding database is being developed separately from and complementary to an IT application to co-ordinate and streamline the administration of EU Structural Funds. Jointly developed by DFP and SEUPB, this will capture and analyse data on project applications and selection decisions, financial and performance monitoring, and other reports.

Case Study 4: On-Line Application, Better Information Capture

DFP has developed an Internet-based electronic application form and data capture process for the two EU Structural Funds Programmes, Building Sustainable Prosperity (BSP) and PEACE II. The system, which is designed to direct applicants to the appropriate Implementing Body, holds identifying data on each application and approved project. Managing Authorities have read-only access to all information held on the database. Implementing Bodies, who are responsible for data capture from application through to Letter of Offer of grant, can update the database directly. Implementing Bodies also monitor projects, and a further phase will develop an IT-based project monitoring system. Any group or individual who has made an application can retrieve and track their application on-line, including details of where it has been referred for decision. There is no wider public access to submitted applications.

Implementing Bodies were involved at the design and testing stages of the system. Applications have already been made through the system[16]. It is too early to comment definitively on either the design or functionality of the database, or whether applicants find the form user friendly.

European Structural Funds Regulations require the capture of information, for all funded projects eg. the environmental impact of the project, for Structural Funds monitoring and evaluation. Such requirements further complicate application forms and may increase the risk of error or partial completion.

16 The total number of on-line Part A applications submitted to BSP and PEACE II was 3017 at 8/4/02.

Application Forms

4.9 Programme managers must exercise judgement in deciding the extent of information required in making decisions on grants which are often quite modest. While we were concerned that the length and complexity of some application forms, particularly for EU funding, might deter some smaller groups, we were also encouraged by the clarity and attractive presentation of many application forms and accompanying packs.

4.10 A completed application form can provide basic information for appraising a project and deciding whether to award grant. 'The Northern Ireland Preface to the Green Book'[17] (paragraph 6.9) indicates that small grants may be adequately appraised using a suitable application form or appraisal proforma. Questions concerning the four essential criteria relevant to all appraisals of grants - economic efficiency, additionality, viability and cost-effectiveness - should therefore be built into application forms as far as possible. Accompanying notes for guidance should explain, succinctly and clearly, the reason for such questions. Where a large volume of applications is received, NIAO recommends preliminary screening of grant applications against basic programme criteria before subjecting them to more detailed appraisal.

17 'Appraisal and Evaluation in Central Government' HM Treasury, 1997, is known as "The Green Book".

Case Study 5: Clearly Written Application Procedures and Guidance

A good example of comprehensive, clear and brief documentation is the information package supporting the OFMDFM scheme of Funding for Minority Ethnic Voluntary Organisations, which was developed in consultation with stakeholders. Concise "Notes of Guidance for Applicants" describe:

- aims;
- eligible activities;
- types of funding (Core and Innovative Project);
- maximum awards;
- eligibility and selection criteria;
- how to apply;
- monitoring and evaluation requirements; and
- other conditions.

Commonly asked questions and answers about core funding, and worked examples calculating entitlements and phasing of grant, are provided. Contact points are given, and website and e-mail locations for further copies of the notes of guidance. A sample Letter of Offer, and of acceptance, are also provided.

In the Letter of Offer, which recipients sign up to, OFMDFM should also insert a clear undertaking, not to spend the grant on purposes other than those approved by the Department.

Other Significant Issues - Application and Selection

4.11 Our survey clearly demonstrated that voluntary and community bodies value prompt processing and clear timescales for decision on grant applications. Decisions should not be delayed unnecessarily because administrators fail adequately to examine application forms when they are first received.

4.12 In this respect, we noted that the "Information for Applicants" for the DOE's Rural Transport Fund for Northern Ireland, gave clear, time-bounded targets for acknowledging and giving a decision on applications - and guaranteed to answer letters within 14 days of receiving them. Practice varies across funding Departments, but we would be concerned that, where no clear desk instructions are established, administrators who lack appropriate training or experience, may simply acknowledge or record applications, and collate them for consideration at a future date. Information gaps must in all cases be followed up with the applicant in a timely way, so that projects do not miss out on funding, or receive inappropriate funding.

4.13 Clear application procedures, well understood by staff and applicants, should reduce the level of unsuccessful or poorly presented applications - but only if they are well communicated. The Community Fund in Northern Ireland operates a procedure whereby all groups whose applications for funding have been successful, must attend a full day briefing with Project Officers and Community Fund administrators before payment begins. The Community Fund, which organises these 'Grantholder Seminars' across Northern Ireland, at locations convenient to the successful groups, says:

"The seminars clarify what is to happen next, and what steps need to be taken when and by whom, in order to ensure smooth draw down of funds. They explain the roles and relationships in the grant partnership and stress the importance of prompt communications if plans were to change. Grant-holders appreciate this opportunity to meet the staff, and to learn what they need to do next. The Community Fund staff enjoy meeting their 'happy customers' before grant is drawn down and stress that the seminar has helped reduce the number of 'problem cases'. They find that, once the grant-holder has met relevant staff, grantees act faster should a problem arise, and find it easier to build working relationships with staff. The seminars have also helped to improve the return rate of monitoring information by over a third."

4.14 NIAO recommends that all grant application packs should contain clear advice on appeal procedures. Some Departments do not include guidance on appeals, and it is only made available on request. However, we noted some good practice in several Departments, eg. DOE's Rural Transport Fund guidance.

4.15 The selection panel should comprise people with particular knowledge of, or expertise related to, the objectives and activities of the particular scheme. It should be convened under clear terms of reference, observing principles of confidentiality and impartiality and should include members not associated with the funder. Departmental funders should keep a clear record of weighting and scoring of applications, together with other papers relating to these applications.

4.16 Most Departments clearly outline the criteria for eligibility for funding. The process by which decisions are taken, particularly as regards small grants, is not always however properly documented. When deciding how long they need to retain these records, Departments should consider in what circumstances they are likely to need the records eg. for the purposes of appeal procedures, for audit or verification of application and procedures, for the purposes of internal audit and other consultancy, inspection and review services. The general guidance contained in Government Accounting Northern Ireland, Chapter 38, is relevant. (See also DFP's 'Structural Funds Manual' January 2002, regarding retention of records.)

Summary

4.17 Although problems of access to information and grants,clearly exist, there is much good practice as regards open, transparent and equitable application and selection processes. We have highlighted some common weaknesses, and identified good practice.

Looking to the future, there is scope to pursue the development of an interactive application process, accessible through a single website maintained or supported by central government, with regularly updated details of all government grants. We acknowledge the need for dual running with a paper-based system, at present, so that groups are not disadvantaged because of inexperience in, or lack of access to, information technology. As with many of our recommendations, this needs to be co-ordinated across government, and should be consistent with development of information systems to support EU Structural Funds management and reporting.

Part 5: Performance Measurement

Background

5.1 Effective government funding of the voluntary and community sector requires clear targeting of efforts, and monitoring and evaluating the impact of government funding to help clarify where resources are being allocated, and what outputs and longer term outcomes they are producing. There is a real risk that funding will be wasted because the objectives of funding, or the need for funding, have not been clearly established. Duplication and overlap of funding effort are also likely, given the size and diversity of the sector, and the complexity of government funding mechanisms. Furthermore, with so many funding Departments (as well as charitable funders, and National Lottery distribution bodies etc), there is obviously a risk of double-counting of results and outcomes.

5.2 In such a context, an overall framework co-ordinating information systems and performance measures across government is desirable. Such a framework will help Departments take an informed approach to setting and monitoring progress towards objectives and targets for grant schemes for which they are responsible, and managing risk. We commend DSD for progressing policy consultations on strategic funding, performance measurement, and Compact delivery policies, which are all essential foundations to a co-ordinated approach. DSD has emphasised its intention to progress to establish the funding policy which will provide a framework conducive to effective and efficient use of government grants to voluntary and community bodies. This will be of particular importance.

5.3 In 1996-97 a significant amount of data was collected on funding flows, objectives and outputs of grants, for a review by the Secretary of State. However, no high level evaluation and monitoring of the totality of the impact of government funding of the voluntary and community sector is routinely conducted across government, or by individual Departments. During our examination, we therefore found it difficult to make an informed judgement on the overall effectiveness and efficiency of government grants to voluntary and community bodies. We do however note that a number of individual projects and funding programmes are routinely monitored, and subject to post-hoc evaluation. An evaluation process is built into European Structural Funds programmes.

Better Co-ordination of Performance Measurement

5.4 There are aspects of government policy on partnership with the voluntary and community sector in Northern Ireland which lend themselves to an inter-Departmental approach to performance measurement, eg. the emerging policy on the social economy (with DETI in the lead), 'Partners for Change', and the forthcoming voluntary sector funding strategy (both led by DSD). These policy initiatives all support and flow from commitments made in the Executive's current Programme for Government (co-ordinated by OFMDFM).

Implementation of these policies will likely be secured, at least in part, with the assistance of funding awarded from the two main current Structural Funds Programmes, Building Sustainable Prosperity (BSP), of which DFP is the Managing Authority, and the second Peace and Reconciliation Programme (PEACE II - SEUPB). OFMDFM and DFP should continue to encourage Departments to develop a common approach to evaluating the effectiveness of spending programmes supporting the voluntary and community sector, drawing where appropriate on monitoring and evaluation of EU-funded projects and programmes.

5.5 In many areas, the challenge will be to find satisfactory qualitative measures. The Public Service Agreement (PSA) for DSD commits the Department to develop key strategic performance measures for urban regeneration. Building on earlier, qualitative work which was completed in support of project evaluation some years ago, the Department is also developing indicators to measure the contribution of the voluntary and community sector, eg. in terms of "social capital"[18]. This work has various potential applications by government and other funders, both in developing policy, and appraising and evaluating projects. We recommend that the final version of 'Partners for Change' should report progress on this work and its relevance as part of the funding strategy following on from the Harbison Report (paragraphs 2.8 and 2.9).

18 For background see 'Social Capital - A review of the literature'. Social Analysis and Reporting Division, ONS, October 2001.

Evaluation

5.6 'The Northern Ireland Preface to the Green Book' provides practical guidance on appraisal - to determine which option will best meet the objectives; and evaluation - to assess the impact of a project, programme, etc. Unless evaluation is built in at the planning stage of a project, there is a risk that effort may be misdirected, remedial action may be delayed, and important learning opportunities may be lost.

Ideally, all funders will negotiate and agree an evaluation and monitoring framework with projects, or with the bodies in which they are rooted, as a condition of funding. By sharing ownership of the evaluation process, the "voice" of the project does not risk being overwhelmed. Funders and project should satisfy themselves that the planned objectives and outputs of activities to be funded are mutually understood and agreed, and monitoring procedures are adequate.

Projects and their funders should also agree at the outset on the purpose, methodology, timing and resourcing of evaluation. Most funders expect that the evaluation will provide objective evidence on what has been "bought" by their investment. Accordingly, both the funder(s) and the project should critically assess the terms of reference, ie. what will the evaluation measure and report on, and does this meet their respective needs? Verification and audit requirements should also be considered at this early stage. Where multiple funders are involved, the audit and verification burden may be reduced by agreeing mutually acceptable reliance arrangements.

5.7 For joint evaluation to be successful, many of the people involved in delivering the project, eg. board members, paid staff and volunteers, will need to understand the principles of evaluation. They should also be clear on targets, objectives and outcomes, and be involved in regular monitoring of the project's progress towards these. Self-evaluation and monitoring will help alert the people who are working in, and on, the project on a day-to-day basis, to any emerging problems, and how best to address them. These issues should be communicated to funders in a timely way. For administrators who are responsible for managing grants in government Departments, shared evaluation can be cost-effective in securing better self-management by the project, and improving communication between the project and its funders throughout its whole life.

Over time, as more comparative evaluation information becomes available, Departments should have a better view of risks and their management, and whether they are securing value for money from particular projects, grants programmes and policies, and overall.

Case Study 6: Formative Evaluation

The Policy and Research Unit (PRU) of Belfast Regeneration Office (BRO) is conducting a "formative", ongoing evaluation, which will help to develop the 'Communities in Schools' project during its planning and operation, so that it meets its objectives and goals. A main customer and participant of the formative evaluation is the project itself, and the people involved in it.

The 'Communities in Schools' pilot involves six schools in North and West Belfast. Its objective is to facilitate contact between the schools, businesses and the wider community[19] so as to improve the quality of engagement of pupils, families and schools, with the local community and vice versa. A Project Co-ordinator has been appointed in each school.

Participating schools face diverse and differing social and economic factors, which impinge directly on the children. Through a series of one-to-one meetings and workshops, external evaluators have assisted each school to identify what their pupils and parents wanted from the project, and to establish relevant targets and monitoring frameworks which the co-ordinators will use, independent of external assistance, to track progress, and to identify and adjust problems of implementation. The evaluation will also seek to capture and track the quality and effectiveness of inter-agency working.

19 Including statutory agencies whose interests or responsibilities are relevant to pupils' lives.

5.8 As regards partnership models, similar principles apply. The Audit Commission's management guide 'A Fruitful Partnership', on getting the best out of partnerships, advises that a key test of the success of partnership working must be whether the extra benefits that come from working in partnership are greater than the costs involved in doing so. NIAO therefore recommends that policies which entail partnerships with the sector, including 'Partners for Change', should be evaluated and monitored against this yardstick. The value of qualitative outcomes, such as levels of social capital, awareness of health issues, capacity for reconciliation and outreach, will often need to be assessed alongside monetary benefits. These qualitative assessments should weigh in any judgement regarding the success of the partnership. However, there needs to be clarity of purpose at the start of the partnership (what qualitative gains are important to each or all of the partners, which are subsidiary and not so valuable), to prevent post-hoc rationalisation of the outcomes.

Public Service Agreements

5.9 Public Service Agreements (PSAs) provide information to help Ministers to ensure that public funding is directed towards the Executive's priorities. PSAs are rooted in Departments' planning systems, through which performance should be systematically and holistically monitored, evaluated and adjusted (Appendix 8 refers). If satisfactorily implemented, this approach should support and promote a more strategic, yet at the same time firmly based, approach to evaluating the overall impact of government funding of the voluntary and community sector. This will help ensure that decisions on funding for the sector are directly related to Departments' high-level PSA objectives and targets.

5.10 In the report 'Measuring the Performance of Government Departments', the National Audit Office (NAO) has noted that significant outcomes cannot always be achieved by organisations working alone - partnerships with other Departments and agencies are often essential. The report goes on to recommend the approach by some Departments who have been able to develop PSA targets that contribute to cross-cutting objectives from existing sets of high level indicators. In other instances Departments have worked together, sometimes as a result of cross-cutting reviews established by the Treasury, to establish joint PSA objectives and targets.

5.11 Joint PSAs and co-operative planning processes can more effectively implement cross-departmental priorities (in Northern Ireland's case, cross-cutting Executive priorities), encourage joint working among Departments, and help Departments to focus on shared priorities by establishing joint targets, considering how funding can be used flexibly and requiring Departments to jointly account for their performance[20]. Equally, we recognise that there are concerns about joint accountability, and that cross-cutting objectives or targets should not distract from Departments' main targets.

5.12 Where appropriate, Departments should work together and with other bodies to agree common or complementary objectives and develop joint targets in support of Programme for Government priorities or sub-priorities. In this way their combined effort will transparently maximise or complement, rather than duplicate, the contribution of each. Such co-operation should be bottom up as well as top down. We recommend that Divisions and Branches who manage funding programmes, eg. which tackle social need and social exclusion, should keep abreast of other Departments' efforts towards common priorities, and should engage in joint planning, actions and evaluation, where these will improve the overall effectiveness of government's intervention.

Summary

5.13 We have highlighted the need for funding and associated evaluation procedures which flow from, and support:

- the high level priorities of the Executive's Programme for Government; and
- the objectives and targets in the PSAs of relevant Departments.

5.14 We have reiterated the need for clear, high level objectives and related performance measures and the importance of capturing and assessing not only quantitative, but also qualitative, information.

5.15 These recommendations require that each Department must be clear about the extent and nature of its partnership with the voluntary and community sector, and how it complements, yet is distinct from, what other Departments are doing.

20 'Measuring the Performance of Government Departments' NAO, March 2001, paragraphs 1.3-1.6.

5.16 Throughout the lifetime of a project, evaluation can improve communication between and among the project and its funder(s). We have indicated the need for partnership working with funded bodies, and between co-funders, in setting objectives and targets, and in appraising and evaluating projects.

5.17 Departmental staff who administer grants should understand and be able to apply appraisal and evaluation techniques, and be skilled communicators who work co-operatively with projects, and other co-funders, at all levels. Such staff need to have a good knowledge and understanding of the sector, and government's funding policy and relationship with the sector. They must also have a good grasp of the relevant requirements of EU Regulations and Government Accounting, to implement proportionate and proper financial controls, which we consider in Part 6.

Part 6: Financial Controls

Introduction

6.1 A co-ordinated approach to government's partnership with the voluntary and community sector requires a clear view of total resource investment and funding flows. All Accounting Officers need full information on the totality of grants and funds for which they are responsible. They require assurance that financial management systems are in place and working well to ensure that these public funds are being used regularly, properly and effectively.

Funding Flows

6.2 Our investigations indicate that individual Departments' accounting systems adequately identify individual grant payments made directly to the sector. However, information is not routinely collated on the totality of public funding to the voluntary and community sector, nor can all the various grant and funding flows from government, NDPBs and other public bodies, be readily identified. Duplication and overlap are evidenced by the extent of multiple funding. Clearly the gaps in information, not only on total spending but also on performance, make it difficult to judge the overall effectiveness of government funding to the sector.

NDPBs

6.3 We have not investigated in detail the extent to which Northern Ireland Departments exercise guidance and oversight of NDPB financial and performance monitoring and control systems (see also paragraph 6.19). However, we note that in March 2000, the Westminster Public Accounts Committee (PAC) examined the Department for Culture, Media and Sport, regarding grant management by the Arts Council of England[21]. While commending the Department for not second-guessing the Council's selection of lottery grant recipients, the PAC pointed out the need for the Arts Council "to strengthen the assessment of grant applications and to bolster their financial skills" and looked to the Department "to

21 See also Appendix 5.

ensure that this is done". This underlines the Accounting Officer's ultimate personal responsibility for ensuring that proper grant management provisions, including good financial management, were in place in the NDPB in question, and operating satisfactorily.

European Funds

6.4 In relation to arrangements for PEACE I, NIAO has criticised several Departments for placing undue reliance on IFBs, and failing to exercise adequate oversight and control (Part 3, Figure 1). We strongly recommend all Accounting Officers to keep under review the financial management systems applied to all funds transferred to second tier funding bodies, particularly by those IFBs who have in the recent past exercised inadequate financial controls. The Accounting Officer remains personally responsible for all monies transferred from the European Union and under his or her control. Aspects of this responsibility may be delegated, but it remains important for the Accounting Officers, and those whom they formally designate, to be clear about their respective responsibilities.

6.5 The SEUPB, as Managing Authority, is responsible for the efficiency and correctness of management and implementation of PEACE II. The Operational Programme however requires SEUPB, providing it is assured that sound financial management systems are in place, to delegate part of its functions in relation to management of EU co-financed expenditure to the implementing bodies. These include government Departments, IFBs and Local Strategy Partnerships.

6.6 Nevertheless, it remains the duty of the Accounting Officers of Departments to ensure that their Department applies financial and other management controls, as appropriate, to safeguard the public funds provided to SEUPB in support of its operations, and to ensure that the controls being applied by SEUPB, IFBs and Local Strategy Partnerships (LSPs) conform to the requirements of propriety, regularity and good financial management.

Consistency of Financial Controls - EU and Exchequer Funds

6.7 We note the clear and detailed guidance about the two current Structural Funds programmes, contained in the widely available

Operational Programmes. Although well crafted and clearly indexed, there is a huge amount of information in these publications. We therefore welcome DFP's recently published Structural Funds Manual setting out the main aspects of Structural Funds Administration, as an aid to consistency of treatment both within and between Departments, and other Implementing Bodies. This manual, which has been made available to all bodies involved in the implementation of the two current Operational Programmes, should help clarify the interaction and complementarity of Government Accounting and EU requirements.

6.8 We also welcome the revised European Social Fund (ESF) Promoter's Manual, distributed by the Department of Employment and Learning, which provides information to help groups to apply for ESF, and explains the funding requirements and general ESF rules they must observe throughout the life of the funded project. The second volume of this Manual, the 'Project Good Practice Guide', is a particularly helpful, step-by-step guide to good grant management. Based on UK-wide experience of administering grants from Structural Funds and exchequer sources, it is detailed, well written and clearly indexed.

Proportionality

6.9 Detailed financial and performance information will be necessary for monitoring and evaluation purposes. However, Departments should always tailor application, reporting and monitoring requirements consistent with the scale and risk of funding involved. Not only will this limit the regulatory burden, particularly for small groups, but it also reduces unnecessary administration by Departments and funders. Both the Home Office 'Funding Code of Good Practice', and the 'Northern Ireland Preface to the Green Book' (on appraisal and evaluation), give practical advice on how this may be achieved. Some of the key points/references made in the current (1997) Northern Ireland Preface are as follows:

- Paragraph 1.5.2 of the Preface indicates that small grants may be adequately appraised using a suitable application form or appraisal proforma. This is a key point for dealing with grants to the voluntary sector, which are often quite modest. The problems associated with commissioning substantial, separate economic appraisal reports can be avoided by building appraisal principles into application forms, thus enabling funding bodies to appraise proposals on the basis of completed forms. This approach is used on numerous programmes of grant assistance already. Of course, the funding bodies need to ensure that forms are properly completed so that all the relevant appraisal questions are satisfactorily addressed.

- Paragraph 1.5.3 sets out (and paragraph 2.14 enlarges on) the criteria that are relevant to all appraisals of grants - economic efficiency, additionality, viability and cost-effectiveness. Questions covering these criteria should be among those built into application forms, as far as possible.
- Appendix 1 gives general principles for deciding the right effort needed to appraise small expenditures. It refers broadly to spending of less than £50,000. However this figure is under review and will likely be increased in the forthcoming replacement for the Northern Ireland Preface. Given suitably designed forms, and suitable checking that these are completed properly, it should be possible to avoid the need for separate economic appraisal reports when processing smaller grant applications. It is a matter for DFP to review and establish the appropriate threshold.

Appendix 1 of the Preface requires that the principles of economic appraisal are to be applied with proportionate effect. Appraisals of smaller expenditures should address the key appraisal steps, but should be less detailed, more flexible, documented more briefly, and built into application forms or appraisal proformas where possible. These steps must however be taken, and recorded. NIAO understands that DFP has reviewed the level of the threshold and intends to issue guidance on its application, which will be incorporated in the revised version of the NI Preface to the Green Book. We note that, in the context of the 2000-2006 European Programmes, full economic appraisal is required for all projects where the EU grant-aid over the life of the project totals £250,000 or more.

6.10 We offer some further practical examples of the opportunities for lightening regulation of projects funded by government grants. Firstly, EU Structural Funds rules require a separate bank account for each funded project. Our survey of voluntary and community bodies identified this as a troublesome requirement. A separate bank account is not generally required, although specific financial management procedures consistent with accountability and Government Accounting requirements are essential, for any non-EU exchequer-funded grant to a voluntary or community body. As regards exchequer funds, the requirement is simply that all grant payments and expenditure attributable to them should be separately administered and accounted for by the project, and by the funder.

6.11 Secondly, Government Accounting precludes payment in advance of need, and disallows use of government funding for profit, eg. through an interest bearing account. This is an important element of prudent cash management. However, while many grant managers are confident in their interpretation of "payment in advance of need", other funders are uneasy about payments quarterly in advance. The Home Office publication 'Funding: a Code of Good Practice' gives practical clarification as follows:

"Regular payments in advance for grant financed work should be made where the need for an advance payment is established. Many voluntary and community organisations do not have the resources to undertake work and receive payments afterwards. They can usually demonstrate a clear need for funding before the work can begin. Evidence of this type of need should be found in the financial information submitted by the applicant. It is worth bearing in mind that all organisations can expect to hold reserves, and the Charity Commission provides guidance for charities in its leaflet CC19."

It is particularly important that grants given for specific purposes should be paid in a timely manner and that money received should not be used for other purposes, or remain unutilised for long periods. However, this guidance recognises that some funded projects depend on grant monies for start-up expenses, to fund particular posts and to pay salaries and allowances as soon as they are earned or due. It absolutely requires the need for the funds to be established at the time of application, and Departments and other funders should be able to demonstrate that this has been addressed in every case. The reserves policy of any body (described in the Charities Commission leaflet CC19 - see Appendix 9) is clearly a matter for that body alone. However, the funding body must satisfy itself that groups are not accumulating funds unnecessarily, and are managing their revenues prudently, when considering the need for an advance payment.

Capacity

6.12 It is a requirement that, before paying any grant, Departments must be satisfied that the recipient has the capacity to handle public money properly. There is a wide range in capacity and level of skills throughout the various groups which comprise the voluntary and community sector in Northern Ireland. Despite widespread and high levels of professionalism, some voluntary and community groups, including IFBs, may lack particular management and financial skills or experience needed to make the best use of government grants.

6.13 A lack of understanding of the principles of government accountability, and the EU or exchequer funding controls which secure financial compliance, can be a real problem not only for voluntary and community groups, but also for public sector employees. The officials who manage grant programmes and monitor projects require, at the minimum, a sound knowledge and understanding of EU Regulations, Government Accounting, and other key regulatory instruments. The importance of clear, consistent guidance and related training, to help improve capacity and standards of administration, should not be underestimated. The Westminster Committee of Public Accounts, reporting on the control of Belfast Action Teams' Expenditure (Sixth Report of the 1997-98 Session, HC 382) agreed with the C&AG that "the lack of comprehensive guidance and training for staff was likely to have contributed to the poor control, bad practice and inconsistency in approach" highlighted in a critical NIAO report.

Training should aim to promote a better understanding of accountability and the practical application of proper financial and performance management, across the staff of public sector funders, second tier funding bodies, and final beneficiaries. A common programme of core training has the potential to build better foundations for future stewardship of public monies.

6.14 NIAO therefore recommends that practical, effective training should be developed and courses run on a regular basis, which introduce, explain and reinforce the key requirements of Government Accounting and European funding rules. This training should also provide practical guidance on essential financial controls and procedures relating to grants. Ideally, it should be provided to recognised quality standards. Courses should be open to civil servants, other funders and grant recipients.

6.15 Training should be supplemented by circulars (documentary or electronic), briefings and funder-specific training, on changes to the regulatory and policy regimes as appropriate. When changes are made to regulations and policy, all stakeholders should be informed. (See also Part 3, Figure 3 - there should be consultation with the sector when changes affecting it are being considered).

Financial Management Structures and Processes

6.16 The Harbison report proposes structures which should better manage the current complex system of government grants to voluntary bodies. These include a body to administer and pay small grants, an integrated and overarching, area-based strategy for funding, monitoring and evaluation procedures, a common funding database, and mapping of community infrastructure. It is important that decisions are taken promptly to clarify the government's funding strategy for the voluntary and community sector, and the various mechanisms and actions to support it.

6.17 We have considered the need for consistency and strategic oversight as a key aspect of risk management, both across government and at whole Department level (Part 3, Annex and Figure 5). Where one Department is responsible for a number of potentially overlapping schemes, systems and controls are needed to prevent duplication, to measure whether the services for which grants are payable have been delivered to the required standard, and to prevent fraud and waste. For Departments with a substantial and diverse portfolio of voluntary and community sector partnerships, NIAO recommends the following practical procedures to support this approach:

- A Departmental strategy for support of voluntary and community groups, integral to business planning in the Department, and feeding into the Service Delivery Agreement (SDA) and Public Service Agreement (PSA). Based on the Departmental strategy in 'Partners for Change', this should identify resources and funding flows, services to be provided, needs to be met, and proposed outputs.

- Risk management of this strategy, for review by internal audit, and the Departmental Audit Committee.
- The Principal Finance Officer (PFO) should report to the Accounting Officer on delivery of the strategy, including regular review of:
  - risk;
  - communications with the sector and with other stakeholders;
  - grant schemes and funding flows;
  - resource use against budget profiles, and performance against target and planned outputs;
  - evaluation of individual projects;
  - procedures eg. effectiveness of financial controls; application and selection procedures; multi-year and core funding grants;
  - roles and responsibilities of staff;
  - co-operation and dialogue between relevant branches;
  - personal accountabilities. A named individual should strategically manage and report to PFO on performance and financial aspects of each major programme, scheme or project; and
  - resourcing, including staff, skills and competences, training and development.

Roles and Responsibilities

6.18 Monitoring, evaluation and financial control are "essential components of Departments' relationships with all grant-receiving bodies", according to DAO(DFP) 15/93, on 'Government's Strategy for the Support of the Voluntary Sector and for Community Development in Northern Ireland'. This circular further emphasises the importance of periodically ensuring that such financial controls are in place and working properly: "It is important that Departments should continue to ensure that appropriate supervisory and control arrangements are in operation and subject to periodic review. Such review should be part of your internal audit cycle."

6.19 However, the grant recipient rather than the Department must provide much of the necessary underpinning financial and performance information. Where NDPBs or other bodies are made responsible for allocating funds by way of grant, the parent Department must therefore not only agree and establish clearly defined roles and responsibilities, but importantly must also satisfy itself that appropriate financial control arrangements are in place and regularly check that they are working well (paragraph 6.4 and Appendix 5). At an organisational level this is only partially defined by way of a management statement/financial memorandum, and perhaps an accounting direction which more clearly describes accounting and financial reporting requirements. These must also be delivered by well-embedded processes, such as regular reporting and review arrangements, which respect the arms-length arrangements but provide essential evidence-based scrutiny.

6.20 The NIAO survey of voluntary and community groups (Appendix 1, paragraph 32) indicates a lack of awareness of funding obligations among a significant number of organisations. It is not entirely clear whether this is in part a consequence of the perceived poor communication by government funders, and confusion around variable criteria and conditions, which were also reported through the survey. However, the lack of awareness does reinforce the need for government funders to ensure that funding obligations are clearly communicated, understood, and observed.

Desk Instructions

6.21 All officials and key staff of IFBs who manage programmes of government grants must have or develop the capacity to understand and implement systems which fully support Government Accounting instructions on financial controls and reporting. Relevant guidance is contained in 'Government Accounting Northern Ireland' (GANI), a copy of which is provided to all Accounting Officers including secondary Accounting Officers, Chief Executives of NDPBs, etc.

6.22 GANI can however be difficult to interpret in isolation from explanatory or supporting documents - it includes cross references to publications such as the Treasury Green Book. DFP will respond to individual Departments' queries on specific aspects of government accounting requirements. Where they deem that a particular question has wider relevance, DFP may circulate an explanatory circular to all Departments, Agencies, NDPBs, etc. Examples include DAO(DFP) 16/97, which re-emphasised that the principles of economic appraisal should be applied to every proposal for spending public money; and DAO 7/89, which required funding Departments to consider, before grants are paid, attaching legally binding conditions regarding the circumstances of disposal, and the treatment of receipts, in all cases where such conditions could lawfully be imposed.

6.23 Despite this, there are many aspects of guidance set out in GANI and/or other DFP instructions which have been overlooked, ignored or breached, as illustrated at Part 3 (Annex, Figures 1 - 4). A common breach of Government Accounting requirements concerning regularity of payments relates to end of year grant allocations. GANI clearly states that any part of the voted provision which the grant paying Department does not pay out during the financial year will be surrendered, unless DFP has agreed to virement. Also Departments should not make payments before they are due. Yet, there have been repeated instances where Departments have ignored this provision by making allocations to voluntary bodies at the end of a financial year, often with no clear undertaking as to outputs, and knowing that it is likely to be carried over or lodged in interest-bearing bank accounts. This will almost inevitably result in irregular use of public monies, criticism by the external auditors, and a higher level of scrutiny not only for the Department, but for the recipient body. This example illustrates the higher level of risk which applies to public monies which are being spent at several removes from central government, and which may be subject to looser administrative controls, perhaps partly because of the relatively small scale of individual grants (paragraph 3.3). It underlines the desirability of formal, Departmental oversight processes as well as the need for strict observance of Government Accounting requirements.

6.24 As part of routine procedures at branch level, it is highly desirable that relevant desk instructions are regularly used by staff who administer grant applications and payments. Many offices have such directions in place. The Community Fund's grant management manuals are accessible through its intranet thus ensuring that changes or updates are communicated speedily throughout the organisation. It is, however, disappointing to find that in some Departments procedural instructions are still in draft form, some are not being used and some are incomplete or vague. We found one set of instructions which advised that monitoring returns should be stamped and filed, with no advice on checking their contents.

6.25 Other simple steps such as the use of a common checklist, kept as part of the file on a particular project, will help embed good practice as routine. For example, the guidance set out in the Northern Ireland Preface to the Green Book could be used as the basis for a checklist in appraising capital bids. This can then be tailored to particular projects, eg. have the special conditions for a particular project been included in the Letter of Offer, and has legal and other expert advice been taken? Has the Letter of Offer been returned, and has a responsible person or persons signed to denote acceptance of any special conditions? Has the group the capacity to deliver on these conditions?

Multiple Funding

6.26 A fundamental requirement of effective grant administration is that public money should only be used for the intended purpose. Another important prerequisite is that grants should be spent prudently and value for money secured. Any offer of grant needs to safeguard against multiple funding, whereby the same activity is funded more than once, potentially leading to wasteful project overspend and/or improper use of public monies.

6.27 As demonstrated in our survey of the voluntary and community sector, the majority of bodies rely on a number of funders, with no single funder predominating (Appendix 1). Many voluntary and community projects are viable only because of a "cocktail" of funding. In such cases, co-operation between funders clarifies who is funding what, reduces duplication, secures an appropriate cash flow to the project, and streamlines reporting requirements. A better outcome can often be secured when a lead funder co-ordinates, examines main documents and verifies original invoices, and where payments may be made through this main funder. Ideally, funders should co-operate in the issue of one single Letter of Offer, one monitoring and evaluation process, and simplified audit arrangements.

Case Study 7: Managing Multiple Funding

> If in practice Departments require a clearer audit trail, each funder may issue their own Letter of Offer, drafted in the light of an overall agreement on the outputs, performance indicators and targets required at the various stages.
>
> DSD's Development Branch has successfully operated such an approach to management of capital projects supported by a "cocktail" of funds. Funding bodies agreed at the outset a sequence whereby each funder in turn took responsibility for ensuring the certification of works or particular stage of a project, for checking original receipts, and for making a stage payment. Regular meetings of the group of funders, and their expert advisers, alongside a programme of site visits, ensured the projects were on schedule. This "sequence of funders" method engaged all funders in ensuring that payments to contractors, through the project promoters, were made within 14-21 days of claim.

6.28 Before funding starts, there should be agreement on who will be checking or auditing what. Funders should keep each other advised of their activities, whether by written or verbal reports, or regular meetings. Where individual funders can satisfy themselves that verification or audit is conducted to common standards, funders can and should agree to rationalise the number of checks and audit investigations which are conducted. Cocktail funding will always present numerous challenges to effective management, including duplication of administrative effort, reporting and monitoring requirements. A clear funding strategy, a more transparent system of information on allocation of government grants, and better communication between funders, should all help reduce the potential for duplicate funding, rework and confusion.

Case Study 8: Problems with Multiple Funding

A Department awarded £90,000 capital grant towards the costs of a building, outside landscaping, and equipment. The project was supported by a number of public sources. In its Letter of Offer, the Department described the grant as assistance for capital costs associated with the project. The grant was time-bounded and subject to terms and conditions. However, the Department failed to adequately establish and monitor:

- the total allowable cost of the project, for grant purposes. This had been subject to variance during the application process;

- the amounts and timing of stage payments by the Department, together with the purposes for which they were to be spent, and specific related conditions;

- the relationship between total project costs, and the respective contributions of the Department and other funders; and

- that all financial transactions relating to grant aid approved by the Department were separately identified.

Subsequent audit inspection disclosed that the total "cocktail" of capital grant funding awarded to the project exceeded the actual eligible building and associated costs by over £18,000. In addition, the building element of the project overran on both cost (by £9,000) and time. A lack of clarity in respect of the total cost of the project, and payments made by the Department, together with inadequate project monitoring procedures, led to potential duplicate funding as well as demonstrable over-funding of the project.

The branch involved says it has recognised the need for more rigorous project management and control, where applicable shared with other funders, and has put these in place.

A Culture of Accountability

6.29 We have identified a need for training which embeds a culture of accountability, across government and the private, voluntary and community sectors (paragraph 6.14). By "accountability", we mean accountability in the fullest sense, embracing both the Compact definition ("Being answerable to all relevant stakeholders in relation to the propriety of policies, actions and use of resources"), and the Accounting Officer's personal responsibility for the propriety, regularity and value for money of government grants (paragraph 2.17 and Appendix 5).

6.30 The Home Office's 'Funding: A Code of Good Practice', jointly prepared with the voluntary and community sector, includes significant undertakings by the sector, which would support such a culture of accountability in the use and administration of public funds. These commit the sector to:

- clear and effective employment policies, management arrangements and procedures;
- effective and proportionate systems for the management, control, accountability, propriety and audit of finances;
- compliance, by organisations that hold charitable status, with the accounting framework for charities and appropriate guidance from the Charity Commission, including on political activities and campaigning;
- systems for planning and implementing work programmes;
- systems for monitoring and evaluating activities against agreed objectives;
- systems for quality assurance and accountability to service users, including complaints procedures and the involvement of users, wherever possible, in the development and management of activities and services;
- policies for ensuring equality of opportunity in both employment practice and service provision;
- the involvement of volunteers in service provision; and
- public acknowledgement of government support.

6.31 We are aware of the important work undertaken by the Joint Government/Voluntary and Community Sector Forum (Joint Forum) locally, and the active role which this group, jointly led by government and sectoral representatives, has taken in helping develop the Compact in Northern Ireland. We also note the high standards of integrity and professionalism which the voluntary and community sector is continuously striving to sustain and promote. We therefore recommend that the final version of 'Partners for Change' should formally record the Joint Forum's commitment to the principles outlined at paragraph 6.30 above.

Appendix 1

Northern Ireland Audit Office Survey Of Funding Relationships: Executive Summary

1. A survey of voluntary and community sector organisations was commissioned by the Northern Ireland Audit Office (NIAO) in July 2001. The survey was facilitated by the Northern Ireland Council for Voluntary Action (NICVA) and carried out by Ulster Marketing Surveys (UMS).

Research Objective

2. The survey was intended to provide indicative data on the quality of information and advice provided by government to the voluntary and community sector. In addition, the participating organisations were asked to describe their information and advice needs, how effectively government meets these needs and where gaps between need and provision, if any, occur.

Research Methodology

3. An expert panel (Appendix 2 refers) convened by NIAO advised on the drafting and conduct of the survey questionnaire. A pilot test of the questionnaire was carried out on a sample of fifteen organisations.

4. The agreed, final version of the questionnaire was posted to the 889 NICVA members derived from the NICVA database of voluntary and community organisations in Northern Ireland. A total of 358 questionnaires were returned by the closing date, giving a response rate of 40%. This is a high response rate for postal surveys, where the industry average is around 15%.

5. The survey was carried out by self-completion questionnaire and the responses provided by the sample are reported as provided. The responses are often perceptual in nature and indicate an attitude formed on the basis of experiences. This is a common phenomenon in this survey method where responses are often subjective, sometimes inaccurate and not open to challenge or further probing.

6. One consequence of the self-completion process is that it can sometimes raise issues of definition or shared understanding. This was partly resolved in the present survey through the use of a pilot study but the definitional issues can never be completely eliminated from the research process.

7. One such issue is how organisations are to be defined and it is raised here only in so far as it may have relevance to the representativeness of the sample. The organisation descriptions (see below: Organisation Type and Sources of Funding) are self attributed and so it is not possible to state definitively how representative of the sector the sample is. Self-attribution may not correspond to objective definitions. However, the diversity of organisations, along all the variables described below, is a good indicator of representativeness and, at the very least, provides a strong indication that the sample was not biased in any significant, discernible way.

Organisation Type and Sources of Funding

8. The sample of organisations responding to the survey is well distributed in terms of type (where type refers to the organisation's main area of operation), purpose (where purpose refers to ethos and focus), location and scale.

9. Funding sources also vary, although there is little reliance for any significant funding on the private sector and many groups look to charitable foundations/trusts and local government, as well as central government.

Impact of Government Funding

10. The voluntary and community sector's perception of its relationship with government is mainly in terms of a "contractual arrangement" (36%) or a working partnership (26%). 13% of the groups consulted view the sector's relationship with government as that of a "poor relation".

11. Government funding clearly has a very significant impact on the recipient organisations. A majority (78%) of the organisations consulted describe government funding as "essential" to their

continuation. In addition, the benefits to the organisation of such funding include the conferred ability to effectively lever in other monies after, or in connection with, the government grant.

Access to Grants

12. Information and advice on access to government grants are derived from a variety of sources although relatively informal methods tend to predominate. There is in this scenario some potential risk that access could become disproportionately a function of an organisation's networking competence.

13. While about half the organisations consider enough was done to encourage applicants, a sizeable minority are of the opposite view. The main difficulties they describe include inadequate publicity by the grant givers and a lack of clear guidance sufficiently early in the application process. The deficiencies are probably more likely to disadvantage less experienced groups, thereby creating something of an imbalance and unfairness in the system.

14. A significant number of organisations are having to seek external assistance with their funding applications. Almost half the organisations required some assistance. This was provided by a wide variety of individuals and organisations with no single source of advice particularly favoured. Given this dependence on external support, access to funding can become, to some extent at least, a function of the availability of external support.

15. Access issues are compounded where there are multiple funders or applications for funding to multiple sources (65% of organisations made more than one application for funds in the last year). A particular difficulty in this context is the reported perception among the organisations of a highly variable pattern of application and reporting requirements emanating from funders.

16. The most frequently cited scheme providing good information and advice on funding was BBC Children in Need (47% cited).

Funding Applications

17. Organisations appear to be making multiple applications for funding. However, the pattern of grants received seems to suggest a fairly high failure rate among applications. The rate of success varies in proportion to size, with larger bodies receiving more grants, although this is partly a reflection of greater volume of applications originating from these larger bodies.

18. Failure rate remains high however and this may be a reflection of inappropriate applications, which in turn could relate to an apparent lack of adequate guidance to applicants, sufficiently early in the application process, or other communication failure.

Application Requirements of Government Funders

19. The organisations surveyed were asked to describe their experiences of making grant applications to Government funders, specifically relating to the application requirements of the funders. In addition, the respondents were asked for their perceptions of the application process.

Table A: Information Required at Application

Information Required	Responses (%)
Formal application form	74
Signed acceptance of Letter of Offer/conditions	69
Detailed proposal	68
Annual accounts	60
Corporate or strategic plan	41
Annual plan	41
Original receipts for expenditure incurred	30
Quarterly/half yearly/annual financial returns against plan	29
Quarterly/half yearly/annual performance returns against plan	16
Certificate that funds will be spent on approved expenditure	16
Completion of a service level agreement	14

20. Responses indicated some degree of consistency among government funders in terms of their information requirements of applicants at application stage. There were differences in process at application stage. A majority (three quarters) of funders were reported to require the completion of an application form, and two thirds required a detailed proposal.

21. There was an apparent relationship between the size of the grant being applied for and the application method. For example, smaller grants were more likely to require an application form and larger grants were more likely to require formal proposals/investment appraisals and corporate plans.

22. A significant number of organisations consider the application process bureaucratic and insufficiently open and transparent (only 29% consider the process to have been transparent). For smaller groups, in particular, the process creates a significant administrative burden.

23. It could be argued that less well resourced groups are therefore disadvantaged compared to larger bodies, although even here there is evidence of dissatisfaction across the board with the (sometimes intensive) nature of the application process.

Funding Source and Type

24. Two thirds (66%) of the organisations had received a government grant within the current financial year, from a diversity of funders where no single funder predominated.

25. The respondents described the grant received in various ways, at times specifying the type (core, project, etc) and at other times naming the funder or the particular area of need the grant application was addressing. The information relating to grant description is therefore somewhat unreliable.

26. The payment intervals varied, with one in ten (9%) being one-off payments, 22% quarterly, 4% monthly, 3% half yearly and 3% yearly. Other responses included in arrears (1%), on completion of work (1%), on submission of invoices (1%) and '80% initially then monthly payments' (1%).

Letters of Offer and Guidance Notes

27. Almost three quarters (71%) of grant receiving bodies were given a Letter of Offer, while less than half (42%) received guidance notes. A majority (89%) of those receiving guidance notes found them useful.

Reporting and Monitoring Requirements of Funders

28. For reporting and monitoring purposes, funders imposed a range of obligations with little overall apparent consistency between funders.

Table B: Information Required for Reporting/ Monitoring

Information Required	Responses (%)
Annual accounts	39
Quarterly/half yearly/annual financial returns against plan	39
Quarterly/half yearly/annual performance returns against plan	34
Original receipts for expenditure incurred	34
Certificate that funds have been spent on approved expenditure	22
Signed acceptance of Letter of Offer/Conditions	15
Annual plan	11
Completion of a service level agreement	9
Corporate or strategic plan	8
Formal application form	6
Detailed proposal	5

29. At application, three quarters (74%) of funders required the completion of an application form and over two thirds (68%) required a detailed proposal (Table A, paragraph 19).

30. The reporting and monitoring requirements of funders include the provision of annual accounts (39%) and quarterly/half yearly/annual returns (39%) - Table B refers.

31. 37% of the organisations consulted stated they were required to raise a separate bank account for each grant received. One in ten (9%) of the organisations reported being confused at times by variable funding criteria and conditions.

32. A third (33%) of the organisations did not give a response to the question about the reporting and monitoring requirements of their funder. This high non-response rate points to a lack of awareness of funding obligations among a significant number of organisations. This could be viewed as a consequence of survey findings, reported elsewhere in this document, indicating a poor perception among funded bodies of government communication on funding issues and some confusion around variable funding criteria and conditions.

33. The most frequently cited example of good practice in relation to the provision of information and advice on the management and reporting issues around grants was Lloyds TSB Foundation (9%).

Financial Management and Control

34. Within grant recipient bodies, responsibility for internal financial management and control varies, depending on the nature of the management task. Day-to-day reporting tends to be carried out by postholders below chief executive grade, while approvals and more strategic decisions are taken by the chief executive in concert with the management committee.

35. A majority of organisations keep cheque stubs (90%), income and expenditure ledger (83%), petty cash book (81%), cheque journal (77%), PAYE and National Insurance records (76%), payroll records (72%) and individual project files (71%).

36. A majority (83%) of organisations have a qualified external auditor and a third (34%) have a qualified accountant on the board or committee. A quarter (27%) have an internal auditor and 17% have an audit committee.

37. 14% of organisations conduct economic appraisals for all projects while a quarter (25%) never use this evaluation methodology. Only about a quarter (23%) of bodies use economic appraisal for projects over £100,000 and 6% for projects over £10,000.

38. The existence of multiple funders causes organisations a number of difficulties. These include excessive demands on staff time and confusions that arise around variable criteria and conditions attached to a particular grant and/or funder.

Communication by Government

39. The organisations were asked for their perceptions of how effective government is at communicating in relation to a range of funding issues. The rating of government communication on the range of issues is highly variable.

40. The areas where performance is poorest include:

- Information on what grant schemes are available (rating - 64% poor and 14% good).
- Information on grant rationale and outputs (rating - 55% poor and 19% good).
- Feedback on the performance of grant recipients (rating - 46% poor and 15% good).
- Clarity and promptness of decisions (rating - 46% poor and 24% good).
- Feedback on successful delivery (rating - 38% poor and 26% good).

41. A quarter (25%) of the organisations consider that government could provide better updates on grants available to the voluntary and community sector. Other suggested improvements include:

- clearer guidelines on grants, funding criteria and application processes;
- direct named contacts/help lines for advice on grants;
- website of advice and guidance; and
- briefing seminars/information days/workshops.

42. The organisations suggested a number of ways in which government could assist the sector to develop proposals for grant assistance. These include:

- making staff available to meet with voluntary sector staff and explain the funding ;
- building the skill capacity of the sector, eg. proposal drafting; and
- making available a staff resource in the form of a development worker specifically in relation to grant assistance.

43. The management of grants could be improved by government support, to include the following:

- the provision of more guidance and training;
- the provision of a mechanism of ongoing contact through a development worker;
- a more prompt releasing of funds;
- the provision of record-keeping templates for guidance; and
- the co-ordination of inspections/audits across funders.

Appendix 2

Expert Panel on Grants to Voluntary Bodies

Dr Jeremy Harbison

After studying at Queen's University Belfast, and at the University of Ulster, Dr Harbison was a clinical psychologist for ten years before joining the Civil Service in 1974. He has held senior positions in the Department of Finance and Personnel, the Central Community Relations Unit, the Department of Health and Social Services and the Department of the Environment. Prior to his retirement in October 2001, he was Deputy Secretary in the Department for Social Development with responsibility for the Voluntary Activity Unit and urban regeneration. He is currently Chair of the Northern Ireland Social Care Council and a Senior Practitioner in the Institute of Governance, Public Policy and Social Research at Queen's University.

Professor Jimmy Kearney

Professor Kearney took early retirement from the Northern Ireland Civil Service in 1999, after which he was appointed as Visiting Professor in the Centre for Voluntary Action Studies at the University of Ulster. He has a particular interest in volunteering, community development, early years services, parenting, disability and equality issues. He is a Board Member of the Community Fund and chairs its Equalities Steering Group and its Northern Ireland Committee. He also chairs the Board of the High/Scope Ireland Institute. He is a Board Member and Trustee of TimeBank and a member of the Editorial Board of the Institute for Volunteering Research and of the Association for Voluntary Action Research Ireland.

Professor Kearney's recent publications include:

'The voluntary and community sector in Northern Ireland: developments since 1995/96' (with Dr A P Williamson) in Next Steps in Voluntary Action (2001). NCVO.

'The values and basic principles of volunteering: complacency or caution?' in Voluntary Action, Volume 3, Number 3, Autumn 2001. Institute for Volunteering Research.

'Youth Empowerment through Volunteering: A Case Study of Voluntary Service Belfast's Young Citizens in Action Programme' in Scottish Youth Issues Journal, Issue Number 3, Autumn 2001. University of Strathclyde and Community Learning Scotland.

Mr Seamus McAleavey

Seamus McAleavey is the Director of NICVA, the umbrella body for voluntary and community organisations in Northern Ireland which has more than 1,000 member organisations.

Prior to working for NICVA, Seamus worked with the Confederation of Community Groups in Newry. He is a member of the Northern Ireland Partnership Board and the Concordia Social Partners Group (CBI, ICTU, Ulster Farmers' Union, NI Agricultural Producers' Association and NICVA). He is a member of the Economic Development Forum, an advisory body to the Minister for Enterprise, Trade and Investment, and the Community Support Framework Monitoring Committee.

Seamus is a member of the Board of NI-CO, the Northern Ireland public sector consultancy company, which channels Northern Ireland expertise into overseas projects. He is a Board member of the Combat Poverty Agency, a public body in the Republic of Ireland.

Professor Elizabeth Meehan

Professor Meehan is Director of the Institute of Governance, Public Policy and Social Research at Queen's University Belfast. Her research and teaching interests include Citizenship, Women, European Union, Northern Ireland and the European Union, citizens' rights and freedom of movement in the EU.

Professor Meehan's publications include:

'The Europeanization of the Irish Question', in M Cox and A Guelke (eds), A Farewell to Arms? From War to PEACE In Northern Ireland (2000).

'Citizenship and Identities', in I Holliday (ed), Fundamentals in British Politics (2000).

'European Integration and Citizens' Rights: A Comparative Perspective', Publius: The Journal of Federalism, 26 (1996).

Ms Dorothee Wagner

Qualified Foreign Language Correspondent, Translator and Interpreter from the Fachakademie, Wurzburg. She also has a Masters in Business Administration (MBA) from the University of Ulster.

Worked in industry before joining PROTEUS (NI) Ltd in 1992. She has been responsible for the administration and general management of PROTEUS' work. Her duties involved advice and assistance to (potential) project promoters concerning EU funding programmes, project development, capacity building, project monitoring and evaluation. She has managed the company's monitoring team. She has also designed and delivered training on ESF/ERDF regulations, project verifications and project management issues to a variety of clients (representatives from projects, and from the voluntary, community and statutory sectors etc). She is currently Programme Manager for PEACE II in PROTEUS.

Appendix 3

The Northern Ireland Regional Partnership Board

A Regional Partnership Board will be created in Northern Ireland by the Northern Ireland Executive. Its functions will be to:

- promote the principles of partnership working at the local level;
- to promote the sharing of best practice in the development and delivery of local area strategies;
- assist different districts to work together on projects and actions which cross the boundaries of two or more districts; and
- promote effective working between districts and Intermediary Funding Bodies.

This role will cover projects and actions funded by European Programmes, other public expenditure and by private finance.

Given the cross-functional nature of its activities and its links with the new Local Strategy Partnerships, the Northern Ireland Regional Partnership Board will consist of representatives of the sectors represented on the Local Strategy Partnerships. It will also include representatives from Central Departments in Northern Ireland. The Board will be chaired by Junior Ministers in the Office of the First Minister and Deputy First Minister. Secretariat for the Board will be provided by the Special EU Programmes Body.

Appendix 4

Charities in Northern Ireland

1. The Inland Revenue requires that a charity must have been established for charitable purposes only, and its income must be applicable and applied to 'charitable purposes'. Organisations which fulfil Inland Revenue criteria enjoy considerable tax exemptions. Although there is no single statutory definition of a charity, case law which applies throughout the United Kingdom has established four broad types of 'charitable purpose':

- Relief of poverty.
- Advancement of education.
- Advancement of religion.
- Other purposes for the benefit of the community, excluding purposes for the benefit of a limited group unless in the case of relief of financial hardship.

2. The charitable sector in Northern Ireland is relatively small. Not all voluntary and community groups are charities, although many exist for charitable purposes. There are over 180,000 charities in England and Wales, with an estimated total annual income of about £22.4 billion. The Charity Commission, which is responsible for their regulation, employs 550 staff, including qualified lawyers and accountants, and has annual net expenditure of £20 million. There are nearly 28,000 Scottish charities, and 13 full-time staff are involved in granting charity title and regulation in Scotland at an approximate cost of less than £0.45 million.

3. Separate and distinct (yet in many respects broadly similar) law applies to charities in Northern Ireland, England, Wales and Scotland:

- the extent of political or campaigning activities by a charity is strictly limited, and strict rules apply to trading by charities;

- the Charity Commission has a statutory duty to maintain a publicly accessible register of key particulars of most charities in England and Wales, excluding universities and grant-maintained schools, museums, charities with neither permanent endowments, land nor income over £1,000, places of worship, and charities for the advancement of religion in connection with major churches. Neither Northern Ireland nor Scotland currently have a register of charities, although radical proposals for reform of charities law are currently being considered in Scotland;
- the Charity Commission is currently conducting an ongoing review of the Register of Charities for England and Wales;
- the Review of the Register will consider whether those organisations which benefit from charitable status should continue to be legally regarded as charities, and whether there is scope for legal recognition of organisations as charitable, which are not registered at the moment;
- the Charities Acts 1992 and 1993 imposed new reporting arrangements on charities in England and Wales, and gave the Charity Commission powers of intervention and prevention, which do not apply in Northern Ireland. Charities with income or expenditure over £10,000 per annum are required to submit an annual return and a copy of their accounts to the Charity Commission;
- the Charity Commission routinely monitors such returns. There are persistent but reducing problems with compliance;
- the law in Scotland specifies the form of accounts, and requires Scottish charities to provide annual accounts and reports of their activities to members of the public on request;
- Northern Ireland charities are statutorily obliged to maintain proper accounts and keep them for at least seven years; and
- the Cabinet Office's Performance and Innovation Unit (PIU) is currently completing a review of charity regulation, following extensive consultation.

Accountability

Compact Definition

1. The Northern Ireland Compact definition of accountability is: "... being answerable to all relevant stakeholders in relation to the propriety of policies, actions and use of resources". From a voluntary and community sector perspective, accountability as a general concept is closely related to good corporate governance and transparency. Good governance (the system by which an organisation is directed and controlled) is critical to securing public confidence in the voluntary and community sector, as acknowledged in NICVA's 'Good Governance' guide, published in 2001.

Government Accounting Definition

2. Good stewardship of public monies lies at the core of the Government Accounting interpretation of accountability. The essence of a Departmental Accounting Officer's role is a personal responsibility for:

- the propriety and regularity[1] of the public finances for which he or she is responsible;
- the keeping of proper accounts;
- prudent and economical administration;
- the avoidance of waste and extravagance; and
- the efficient and effective use of all the resources in his charge[2].

NDPBs

3. With an NDPB, the Department designates the Chief Executive as Accounting Officer for the body. The Chief Executive has the responsibility for signing the accounts of the body, and may

1 See 'Regularity and Propriety: A Handbook' HM Treasury, July 1997.
2 Including all grants and transfers, whether paid directly by the Department, or through another funding body.

be required to appear before the Public Accounts Committee to deal with questions arising from the accounts or from reports by the C&AG. However this designation does not relieve the Departmental Accounting Officer of his overall responsibilities.

4. Departments have a duty to ensure that the financial and management controls applied by their NDPBs are appropriate and sufficient to safeguard public funds and meet the requirements of accountability. However, they are required to draw up a financial control framework which leaves the body with the maximum operational flexibility consistent with full accountability. Public Accounts Committees can be expected to take a close interest in the quality of stewardship exercised by sponsor Departments over their NDPBs[3]. They will look for this dual quality of flexibility of operation, yet assurance of proper controls.

5. In March 2000, the Westminster Public Accounts Committee commended the sponsor Department for the Arts Council of England:

"We note that the Department do not second guess the Arts Council's decisions about which projects to support with lottery money, and that they are satisfied with the action being taken by the Arts Council to strengthen their grant giving and monitoring. We welcome the Department's assurance that they see their role as helping the Arts Council and other lottery distributing bodies to learn. We look to them to ensure that the lessons from the Arts Council's experience on the projects we examined are brought to the attention of the other distributing bodies[4]".

6. In the same report however, the PAC noted the need for the Arts Council "to strengthen the assessment of grant applications and to bolster their financial skills" and looked to the Department "to ensure that this is done", underlining the Accounting Officer's ultimate responsibility for ensuring that proper management provisions including adequate financial skills, were operating satisfactorily in the Arts Council of England.

7. The sponsor Department, the NDPB Accounting Officer and its Board all have a part to play. When appointed, the Accounting Officer of each NDPB signs a letter of appointment with the sponsor Department, which specifies that he will ensure that all resources are used economically, effectively and efficiently. He also agrees to

3 'Government Accounting Northern Ireland' DFP, 1996 (paragraph 8.1.18)
4 'The Distribution of Lottery Funds by the English Sports Council', HC873 1997/98, Committee of Public Accounts, November 1998.

arrangements covering the operation of financial and performance controls, internal audit, and accounting and reporting requirements. A key responsibility of the NDPB Accounting Officer is also to ensure that appropriate advice is given to the Board on all financial matters, including value for money and performance against key objectives and targets. This is essential information for the Board of the NDPB, which is responsible to the Minister for the implementation of policy.

Appendix 6

Analysis of Risk Models

Appendix 7

Lessons from PEACE I and the way ahead for PEACE II

Extracts from a presentation by NIAO and the Office of the C&AG, Dublin, at a seminar for IFBs, convened by the SEUPB in Belfast, 28 September 2001.

European Court of Auditors' Findings - Weaknesses in PEACE I

- Inadequate consideration to developing an effective methodology for targeting community projects and social groups.
- Selection and appraisal procedures lacked common criteria.
- Inaccurate reporting of financial and management information.
- Lack of quantified targets.
- Overlap with International Fund for Ireland.

ERDF Financial Control Unit Findings - Common Weaknesses

- Errors in expenditure returns - duplication, omission and transcription errors at various levels.
- Inadequate audit trail - inadequate/incomplete supporting documentation.
- Slow progress implementing Finance Circular.
- Refunds of grants not reported.
- Lack of competitive tendering.
- Uninsured assets.
- Publicity requirements not met.
- Expenditure claimed before incurred - advance payments, accruals and unpaid invoices, uncleared cheques.

- Poor cost control - delay in reporting/controlling cost overruns.
- Poor budgeting - change of specification not notified or approved.
- Lack of or poor project monitoring.
- Lack of progress on systems and transactions audits.

European Commission Regulation 438/2001 - Financial and Performance Reporting Requirements

Member States shall ensure that:

- Managing and Paying Authorities and Intermediate Bodies receive adequate guidance on management/control systems.
- Such systems provide adequate assurance as to correctness, regularity and eligibility of claims for EU assistance.
- Clear definition, allocation and separation of functions.
- Intermediate bodies report to responsible authority on performance of tasks, and means employed.
- Systems verify delivery of products/services, reality of expenditure claimed and compliance with eligibility rules.
- All verifications are recorded (work done, results, steps to correct discrepancies/errors and description of sampling method).

Lessons for PEACE II

Before distribution of PEACE II:

- Clear, timely guidelines to all parties involved - Departments, SEUPB, IFBs, LSPs - detailing relationships, lines of accountability and reporting arrangements.
- Comprehensive procedures manuals.
- Clear allocation/segregation of duties at all levels.
- Consistency of approach, good practice by IFBs - in their own operation, and when overseeing funded projects.
- Promulgate EU Regulations/guidelines to those responsible for expenditure at all levels.

Appendix 8

Public Service Agreements and Service Delivery Agreements

Introduction

1. Public Service Agreements (PSAs) should set out the overall aim, objectives and key output and outcome targets to be achieved from the resources provided for each Department, and which are designed to support the Executive's priorities in the Programme for Government. The PSAs for all 11 Departments are contained in the Executive's Programme for Government 2002-03.

2. Service Delivery Agreements (SDAs) should indicate how the Department proposes to achieve its PSA targets, by detailing the services to be delivered, with the associated performance targets for these activities and budgets. The SDAs should also include information on the Department's plans for modernisation to help deliver its targets through its approach to customer service and performance improvement.

3. PSAs and SDAs should provide the Assembly, its Committees and the public with a comprehensive picture of exactly what is to be delivered and through what means. They should provide a link between Departments' Business Plans and the overall Programme for Government.

The diagram below illustrates how the process should be cascaded through Departments' planning and management processes:

Implementing Executive Priorities

Source: OFMDFM, 2002.

4. Each Department's Service Delivery Agreement (SDA) is divided into two main sections:

The first section, 'Delivery Targets - Achieving Results', sets out the Department's main objectives and targets as published in its Public Service Agreement (PSAs) for 2002/03. This section also provides detailed information on the actions that the Department will take in the course of 2002/03 to ensure that these objectives and targets are achieved and contains performance targets to support those actions. The aim of this section is to show clearly how the Department's activities will contribute to the achievement of each of its PSA targets.

The second section, 'Raising Service Standards', recognises that success in delivering progress on objectives and targets requires a focus not just on the specific actions that are needed in any particular area but on a broader range of issues, and reports on:

- improving service to the Department's customers;
- securing effectiveness and value for money in the Department's policies and programmes;
- modernising government; and
- improving business performance.

Equality of opportunity, human rights and Targeting Social Need

Each Department is required to include, in its SDA, a statement that the actions and targets set out in the SDA are designed to reflect their commitment to promoting equality of opportunity and good relations, protecting human rights, and targeting social need.

Appendix 9

Extracts from Charity Commission Guidance on Charity Reserves[1]

Introduction

"Most charities are keenly aware of the need to secure their viability beyond the immediate future. To provide reliable services or funding over the longer term, charities must be able to absorb setbacks and to take advantage of change and opportunity. Many provide for this by putting aside, when they can afford it, some of their current income as a reserve against future uncertainties. Underlying much public discussion of charity reserves is the belief that holding significant amounts of reserves is tantamount to hoarding. This belief is likely to persist unless charities justify and explain their reserves position. The giving public are not generally concerned with the legal and accounting technicalities. But they are entitled to be reassured that a charity with reserves has good reasons for keeping funds in reserve, and to know what those reasons are. Ideally, a charity would want to show donors and others that it would be irresponsible not to hold the level of reserves it holds ..."

"Justifying reserves - a central theme of this guidance - does not mean excusing or being defensive about reserves. It means being able to demonstrate, by reference to a charity's current position and future prospects, why holding a particular level of reserves is right for the charity at that time ..."

Legal Basis for Holding Reserves

"There is no legal definition of "reserves" in relation to charities and no specific legal rule about the amount or proportion of a charity's income funds which it is allowed to hold as a reserve. Trustees are under a general legal duty to apply charity funds within a reasonable time of receiving them. With income funds "apply" can, in practice, be taken to mean "expend" unless the governing document specified otherwise ..."

1 CC19 - 'Charities' Reserves' Charity Commission, June 1999 c Crown Copyright 2001 www.charity-commission.gov.uk/publications/cc19.asp

"Often trustees rely on their implied power - a power not written into the governing document but one which the trustees possess in order to take actions which are necessary for the charity to function properly. As with all discretionary powers, trustees are justified in exercising their power to hold income reserves - whether express or implied - only if in their considered view it is necessary in the charity's best interests to do so ..."

"If it is done without justification, the holding of income in reserve may amount to a breach of trust ..."

Justifying Reserves

"To justify their holding of reserves, trusts should have a reserves policy based on a realistic assessment of their reserves needs ..."

"The policy should cover as a minimum:

- the reasons why the charity needs reserves;
- what level (or range) of reserves the trustees believe the charity needs;
- what steps the charity is going to take to establish or maintain reserves at the agreed level (or range); and
- arrangements for monitoring and reviewing the policy".

"The amount of time spent preparing the policy, and the detail with which it is set down, should be in proportion to the scale and complexity of the charity's affairs. A small charity with a simple, stable pattern of receipts and payments, few if any commitments, and little susceptibility to outside influences should be able to cover the matters above relatively quickly and to record briefly the trustees' conclusions".

Explaining Reserves

"Any charity could find its reserves subject to scrutiny and comment in the public arena. Charities:

- which operate in areas where there is clear evidence of immediate human need; or

- which rely on a strong emotive appeal involving vulnerable groups or animals; or
- which are running public appeals emphasising the urgency of their own need for donated funds,

are likely to attract the most attention, especially if they hold sizeable sums as reserves. There is a risk that charities in that position could be seen as self-indulgent, because they are retaining funds which could be used with immediate effect to alleviate acute need. This risk can be greatly reduced by a clear and positive explanation of the reasons why reserves are held".

"We believe that once a charity has taken the trouble to explain its reasons, the great majority of its donors, supporters and users/beneficiaries will be quite prepared to accept that it should hold appropriate reserves. Charities applying to statutory or voluntary funders are also less likely to have their reserve levels closely assessed".

Appendix 10

Revised Standard Terms and Conditions of Grant - Extract from Home Office Funding Code

Appendix 11

Bibliography

Northern Ireland Reports and Guidance

1. Appraising an Economic Appraisal - a Checklist Approach (DFP, November 1991). Designed to assist personnel engaged in the review and assessment of economic appraisals in the public sector. (Related guidance was updated in 1997 - see item 11 below.)

2. Strategy for the Support of the Voluntary Sector and for Community Development in Northern Ireland, (DHSS, February 1993) (response to Home Office Efficiency Scrutiny). Policy framework for the future development of the partnership between Northern Ireland Departments and the voluntary and community sector.

3. Community Economic Regeneration Scheme and Community Regeneration and Improvement Special Programme (NIAO, June 1995). This report concluded that well established procedures were not followed, eg. as regards project appraisal, monitoring and control.

4. Guidance on the Commissioning and Conduct of Evaluations of Voluntary Organisations by Northern Ireland Departments (DHSS, August 1996) Guidance on the principles, procedures and methods to be observed by Departments in assessing the efficiency and effectiveness of a grant-aided organisation against specific criteria and objectives. (Not to be confused with DFP's guidance on economic appraisal and evaluation, project approval and management.)

5. (a) Department of the Environment: Control of Belfast Action Teams' Expenditure (NIAO, November 1996).

(b) Public Accounts Committee Report on the Control of Belfast Action Teams' Expenditure (Sixth Report of the 1997-98 Session, HC 382). The Committee were astonished that more was not done to learn from the experience gained in administering similar community development schemes elsewhere. Previous evaluations had pointed up precisely the weaknesses identified in this report and they felt strongly that a lot of what has gone wrong could have been avoided by taking account of established best practice. The Committee agreed with the Comptroller and Auditor General that "the lack of comprehensive guidance and training for staff was likely to have contributed to the poor control, bad practice and inconsistency in approach highlighted in the audit findings."

6. Monitoring and Evaluation of Community Development in Northern Ireland (DHSS, 1996). Evaluation is "at the very heart of the achievement of effective results as perceived by all parties." Recommends a minimum of allocation of 10% of project grant-aid, to evaluation. Emphasis on participative, negotiated evaluation, and methods which, wherever possible, allow for evaluation by communities themselves.

7. Measuring Community Development in Northern Ireland: a handbook for practitioners (Barr, Hashagen and Purcell, Scottish Community Development Centre, October 1996) Approaches to measuring:

- How far the community is empowered.
- How the quality of community life is changing.
- What future action is needed.

8. 'The Northern Ireland Preface to the Green Book' (DFP, November 1997) Important guidance on conducting economic appraisal which is a systematic process for encouraging the best use of all the resources in the economy as a whole, based on examining alternative uses of resources. Appendix 1 explains the appropriate appraisal effort when dealing with small expenditures including "Annex E criteria" to be applied to grants to the private and voluntary sectors (paragraph 1.5), and basic elements of appraisal:

- Defining needs and objectives.
- Identifying options.
- Measuring costs and benefits.
- Assessing risk, uncertainty and other factors.
- Monitoring, evaluation and post project evaluation.

9. The State of the Sector II: Northern Ireland Voluntary Sector Almanac 1998 (NICVA, 1998). Key, survey-based information on the voluntary and community sector in Northern Ireland.

10. European Union Special Support Programme for Peace and Reconciliation - Analysis of Community Uptake (Haase & Pratschke, NISRA, April 1999).

11. Beyond the Centre: a consultation document on the District Councils' Community Services Programme (DSD, January 2000).

12. Consultation Document on Funding for the Voluntary and Community Sector (DSD, April 2000). Proposals for a strategic approach to Government funding for the voluntary and community sector, including meeting challenges such as the reducing availability of public sector funds.

13. Funding for the Voluntary and Community Sector - NICVA Response, NICVA, July 2000.

14. Programme for Government (Northern Ireland Executive, February 2001).

15. Managing Your Money: A Guide to Financial Management (NICVA/Community Fund, May 2001). A loose-leaf handbook for voluntary and community bodies and their boards on day to day cash handling, and on managing finances.

16. Managing People: A Guide (NICVA/Community Fund, May 2001). A loose leaf handbook on good personnel practice for voluntary and community bodies.

17. Good Governance: A Guide (NICVA/Community Fund, May 2001). Clear, wide-ranging guidance on the role of Boards and trustees, and "management of management" in voluntary and community bodies.

18. Promoting Social Inclusion: Consultation on Future Priorities (OFMDFM, 2001).

19. Partners for Change: a consultation (DSD, June 2001). Proposals for a three year strategy for the partnership between government and the voluntary and community sector with four aims:

- Shaping policy development.
- Building communities.
- Promoting active citizenship.
- Tackling disadvantage.

20. Reports by the C&AG for Northern Ireland, on the Northern Ireland Appropriation Accounts 1995-96; 1997-98; 1998-99; 1999-2000.

21. Various "Dear Accounting Officer" and "Dear Permanent Secretary" letters.

22. Structural Funds Operating Manual for Northern Ireland, Department of Finance and Personnel, 2002.

Other Literature

1. Financial Management Principles for Direct Grants to Voluntary Bodies (Solesbury Principles) DOE(GB), February 1986. Procedural guidance on eligible projects, supporting information, appraisal of bids, funding profile of organisations, scale and tapering of grants, appropriate financial and performance monitoring review arrangements.

2. Efficiency Scrutiny of Government Funding of the Voluntary Sector: Profiting from Partnership (Home Office, 1990). Although

Government's approach has moved on, this was a seminal study. The Annex F "framework document" to support core funding agreements was accepted by government. Annex G, Monitoring and Evaluation, reports on evaluation to improve the performance of grant schemes and improve the performance of schemes, in support of core funding. Prioritisation and decisions (page 156) "Arrangements for Paying Grant and Financial Controls" gives insight into small organisations' problems with prescriptive monitoring procedures.

3. Promoting Value for Money from Grants (NAO, January 1991). How to plan and operate a scheme and evaluate its efficiency and effectiveness. Frames a number of key operations, and provides thoughtful checklists. Does not cover shared funding.

4. Efficiency Scrutiny of Government Funding of the Voluntary Sector: Implementation Report (Home Office, 1994) Government's response to the 1990 Efficiency Scrutiny. Section 12 accepts that "If there appears to be duplication of services, Departments should identify the services precisely and invite tenders from voluntary bodies."

5. Home Office Support to Voluntary Organisations (NAO, April 1996). Reports on whether 18 grants made by the Home Office Voluntary Services Unit and a further 24 grants made by six other Home Office Divisions, totalling over £27 million, were:

- Supported by clear funding strategies and published criteria.
- Subject to formal application processes and detailed appraisal procedures.
- Regularly monitored to ensure that funds were being used for agreed purposes.
- Evaluated to ensure that planned outcomes were achieved.

6. Guidelines for Funders of Voluntary Organisations' (Association of Charitable Foundations, 1997). The Better Regulation Task Force described this as "a key piece of guidance for government funders ...". A five page leaflet prepared in consultation with the Home Office, with particularly helpful sections on access, and on processing and selecting applications.

7. Appraisal and Evaluation in Central Government - "The Green Book" (HMT, 1997) Currently being updated by HMT to take account of public/private partnerships and changes to procurement. The key guide to economic appraisal (the basis of the Northern Ireland Preface to the Green Book).

8. Administration of Grants - Better Practice Guide (Australian National Audit Office, May 1997) Basic principles, clearly laid out.

9. Administration of Grants in the Australian Public Service (Australian National Audit Office, May 1997). Reviewed 18 audit and evaluation reports that had examined 24 grant programmes across 10 portfolios. Identified better planning and more effective monitoring and review of grant programmes, as key areas for improvement.

10. Managing the Risk of Fraud - A Guide for Managers (HMT, December 1997). Short summary of practical guidance.

11. Access to Government Funding for the Voluntary Sector, (Better Regulation Task Force, 1998). Makes recommendations for improved proportionality, consistency and transparency.

12. The Better Regulation Task Force - Response to Charity Funding Review. (Home Office March 1999). This government response promised a code of good practice to apply in the first instance to central government Departments, government offices for the regions, and Next Steps agencies.

13. A Fruitful Partnership ñ effective partnership working, (Audit Commission, 1998). Follows the main stages in the lifecycle of a partnership, spelling out the likely problems and ways to avoid them.

14. (a) The Distribution of Lottery Funds by the English Sports Council (NAO, March 1998).

(b) The Distribution of Lottery Funds by the English Sports Council (Committee of Public Accounts, Report of the 1997-98 session, HC 873 November 1998). Main recommendations relate to the Lottery capital programme.

15. (a) Grants to Voluntary Bodies: Department of the Environment, Transport and the Regions, (NAO, April 1998). Based on a review of the management of seven grant programmes, comprising 81% of the Department's £38m grants to voluntary bodies in 1996-97. Ten general recommendations for improvement, including better performance measurement and target setting for some of the programmes, better dissemination of best practice, and audit access for NAO to be written into all grant agreements.

(b) Department of the Environment, Transport and the Regions: Grants to Voluntary Bodies (Committee of Public Accounts, Fourteenth Report 1998-99, May 1999). Recommended that, before awarding grants, Departments should have a sound basis for assessing value for money; monitoring should both ensure public money is properly spent, and allow feedback to funded bodies; Departments should ensure grant programmes are achieving their objectives.

15. (c) Treasury Minute on the Fourteenth Report from the Committee of Public Accounts 1998-99: The Department of the Environment, Transport and the Regions' Grants to Voluntary Bodies, 7 July 1999. Broad acceptance of PAC recommendations.

16. (a) Accruals Accounts Pack 2002, Charity Commission England and Wales, August 2001. Help for smaller charities in preparing their accounts.

(b) Receipts and Payments Pack 2001, Charity Commission for England and Wales, for small charities which prepare their accounts on a receipts and payments basis.

17. Good Practice in Performance Reporting in Executive Agencies and NDPBs, NAO, March 2000.

18. (a) Grants Made by the National Lottery Charities Board, NAO, April 2000.

(b) Grants Made by the National Lottery Charities Board (PAC, 16 February 2001).

19. Consultation and Policy Appraisal: a Code of Good Practice Home Office/Cabinet Office/NCVO, 2000. One of the "Compact" series of Good Practice Guides, aimed at achieving better policy outcomes.

20. Funding: a Code of Good Practice (Home Office, July 2000). One of the "Compact" series of Good Practice Guides. Policy on funding, and practical controls and systems for allocating, monitoring and evaluating grants.

21. Principles of Good Regulation (Better Regulation Task Force, 2000). Basic ground rules on clarity and proportionality.

22. Better Regulation Task Force Annual Report 1999-2000 (Cabinet Office, October 2000).

23. Accounting and Reporting by Charities: Statement of Recommended Practice (Charity Commission for England and Wales, October 2000).

24. Structural Actions 2000-2006: Commentary and Regulations (European Commission, 2000).

25. Charity Accounts 2001 - The Framework (Charity Commission for England and Wales, January 2001).

26. Holding to Account - The Review of Audit and Accountability for Central Government (Lord Sharman of Redlynch, February 2001).

27. 1999-2000 Fraud Report: An Analysis of reported fraud in Government Departments and best practice guidelines (HMT, February 2001).

28. Grants Made by the National Lottery Charities Board (Committee of Public Accounts, Session 2000-2001, Fourth Report, February 2001).

29. Review of Funding for the Voluntary Sector (Scottish Executive, April 2001).

30. Charities SORP 2000 - What has Changed (Charity Commission for England and Wales, May 2001).

31. Choosing the Right Fabric: A Framework for Performance Information (HMT/Cabinet Office/NAO/ONS, 2001).

32. The Hallmarks of a Well-run Charity (Charity Commission for England and Wales, February 2001).

33. Funding Our Future - Core Costs Revisited (Association of Chief Executives of Voluntary Organisations, 2001). A well-argued analysis of the case for funders to support the core costs of voluntary organisations. Argues that by adapting their funding behaviour to encompass core costs related to a particular project or timeframe, funders reduce risks to related outcome, quality and reliability of output, and sustainability of the organisation, activity or outcome.

34. A New Commitment to Neighbourhood Renewal: National Strategy Action Plan, (report by the Social Exclusion Unit, Cabinet Office, January 2001). With a foreword by the Prime Minister, endorsing the Action Plan as "a crucial step in creating one nation, not separated by class, race or where people live." Exclusively focused on England, including tax incentives for business, Economic Action Zones, etc although context refers to initiatives and programmes which apply in a similar way to Northern Ireland, such as childcare strategies, New Deal for the unemployed, co-operation with Housing Associations etc. Explains the basic concept of Local Strategic Partnerships, to provide a single, local coalition of public, private, voluntary and community organisations, who will remain responsible and accountable for decisions on their own services and the use of their own resources. The LSPs will operate by consensus. Their main task is to prepare a local Neighbourhood Renewal Strategy. Resources from Neighbourhood Renewal Fund (available to the 88 most deprived local authority districts in England) are conditional upon five factors, of which one is that the Local Public Service Agreement (voluntary partnership agreement between the local authority and the Government, aimed to achieve results more quickly) should have a clear focus on deprivation. Government will provide start-up funding, agreed extra flexibilities, and additional grant from a new Performance Fund, to authorities that hit their enhanced targets.

35. Measuring the Performance of Government Departments (NAO, March 2001). For each Government Department, key objectives and associated performance targets feature in a Public Service Agreement, which underlies the resources allocated in spending reviews. These arrangements put the United Kingdom among the leaders in public sector performance measurement practice and provide a greater focus on policy outcomes. More than two thirds of some 160 Public Service Agreement targets now address key outcomes, such as improved health and education.

36. Charity Scotland: The Report of the Scottish Charity Law Review Commission (May 2001).

37. Funding Community Groups (Consultation Document issued by the Home Office's Active Community Unit on behalf of the Inter-Departmental Working Group on Resourcing Community Capacity Building, May 2001).

38. Communities Count: The LITMUS Test - Reflecting Community Indicators in the London Borough of Southwark (Lingayah and Sommer, New Economic Foundation/Southward Council, May 2001)

39. Modernising the Legal and Regulatory Framework for Charities and the Voluntary Sector (Performance and Innovation Unit, June 2001).

40. Bootstraps or Braces? The regulation of community development finance institutions (Ed Mayo, New Economics Foundation (NEF) and Andy Mullineux, University of Birmingham, July 2001).

41. A Proposed Performance and Accountability Framework for Community Development Finance in the UK (Colin, Sattar, Fisher and Mayo, (NEF) and Andy Mullineux, University of Birmingham, July 2001).

42. The State of Community Development Finance 2001 (Collin, Fisher, Mayo, Mullineux and Sattar, New Economic Foundation, July 2001)

43. Giving Confidently: the Role of the Charity Commission in Regulating Charities NAO, October 2001.

http://www.local-pi-library.gov.uk Audit Commission performance indicators

http://www.charity-commission.gov.uk The guidance section gives comprehensive advice on charity governance, including charities SORP/accounting.

Appendix 12

Main Relevant DFP Guidance to Departments

Reference	Subject	Date Issued
DAO(DFP) 4/89	Contingent Liabilities: Ex-Officio Trustees	14 April 1989
DAO(DFP) 7/89	Disposal of Assets of Bodies with Charitable Status	7 November 1989
APC 34/90	Retention of Documents and Acceptability of Microfilm as Audit Evidence	19 December 1990
DAO(DFP) 15/93	Departmental Relationships with Grant Receiving Bodies	13 December 1993
DPFO	Grant Funded Activities: VAT Implications	15 February 1996
DPFO	Annotation of Forms with a Fraud Warning	7 November 1997
DAO(DFP) 16/97	Economic Appraisal and Evaluation, Project Approval and Management	1 December 1997
DAO(DFP) 11/98	Practice Note on the Audit of Regularity in the Central Government Sector	24 September 1998
DAO(DFP) 10/99	Corporate Governance: The Turnbull Report	20 August 1999
DAO(GEN) 03/01	Analysis of Frauds Reported to HM Treasury 1999-2000	16 February 2000
DAO(DFP) 09/00	Revised Accounting Officer Memorandum for Departments	20 July 2000
DAO(DFP) 10/00	List of DFP Dear Accounting Officer Letters which are still Current	13 September 2000
DAO(DFP)	Issues Raised by the Public Accounts Committee	15 February 2001
DAO(DFP) 5/01	Corporate Governance: Statement on Internal Control	5 April 2001
DAO(DFP) 7/01	NICS Fraud Report	8 May 2001
DAO(DFP) 8/01	Changes in Accounting Officer Appointments Arising from the Introduction of Resource Accounting and Budgeting	18 June 2001

List of NIAO Reports

Title	NIA No.	Date Published
2001		
National Agricultural Support: Fraud	NIA29/00	9 January 2001
A Review of Pathology Laboratories in NI	NIA31/00	8 February 2001
Road Openings by Utilities	NIA35/00	22 February 2001
Water Service: Leakage Management and Water Efficiency	NIA49/00	5 April 2001
The Management of Social Security Debt Collection	NIA71/00	28 June 2001
Belfast Action Teams: Investigations into Suspected Fraud within the Former Suffolk Action Team } Building Maintenance in the Education and Library Boards }	NIA72/00	2 July 2001
Brucellosis Outbreak at the Agricultural Research Institute	NIA02/01	27 September 2001
2002		
Northern Ireland Tourist Board Accounts 2000/01 } Travelling People: Monagh Wood Scheme }	NIA45/01	26 February 2002
Indicators of Educational Performance and Provision	NIA 48/01	21 February 2002
NIHE: Housing the Homeless	NIA55/01	21 March 2002
Repayment of Community Regeneration Loans	NIA 59/01	28 March 2002

Northern Ireland Audit Office

Investing in Partnership: Government Grants to Voluntary and Community Bodies

Report by the Comptroller and Auditor General for Northern Ireland