

S.R. 2002/2

FIFE COUNCIL  
THE THIRD AGE GROUP

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION  
UNDER SECTION 102(2) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

**FIFE COUNCIL**  
**THE THIRD AGE GROUP**

**1. INTRODUCTION**

- 1.1 This report relates to Fife Council's involvement in providing financial and other support to the Third Age Group, a charity established to provide lunch clubs for older people in the Glenrothes area.
- 1.2 Matters relating to the Third Age Group have attracted significant public interest in recent months. Particular concern has been expressed regarding the circumstances in which Fife Council continued to provide support to the Group after its management committee resigned in 1998.
- 1.3 In view of this interest, I have decided to make a report to the Accounts Commission, under section 102(2) of the Local Government (Scotland) Act 1973, in order that this can be considered by the Commission and the Council. The primary purpose of my report is to provide an independent view on the situation as it relates to the financial and other support provided to the Third Age Group by Fife Council. The Group was a recognised charity operating independently of the Council. Consequently its day to day operations, including its decisions on the appointment of staff, are not within the scope of my report.
- 1.4 I have compiled my report mainly from information received from the Council's external auditors who provided me with a report on 30 April 2002, the factual accuracy of which has been agreed between the auditors and Council officers. The auditors' report is reproduced as Appendix A. I have also undertaken further enquiries and discussed my findings with the Council's Chief Executive.

- 1.5 The Council's Chief Executive has already carried out detailed investigations into the Council's involvement with the Third Age Group and has reported his findings to the Council in December 2001 and March 2002. Therefore a substantial volume of documentation has accumulated. My report does not seek to describe or analyse all the information available, but rather to draw on the auditors' findings in order to highlight significant issues arising from the Council's dealings with the Third Age Group.
- 1.6 The remainder of my report is in three sections. Section 2 provides a brief background to the Council's involvement in providing support to the Third Age Group. Section 3 summarises the main issues arising from the external auditors' enquiries. In Section 4, I draw on the auditors' findings to form my overall conclusions.
- 1.7 I wish to place on record my appreciation of the assistance I have received from the external auditors and the Council in the preparation of my report.

## **2. BACKGROUND**

- 2.1 The Third Age Group was established in 1992 to consolidate pilot work undertaken by the Social Work department of the (then) Fife Regional Council to provide meals and social contact to older people in the Glenrothes area. A management committee was formed in November 1993 to oversee the provision of the lunch clubs and the Group obtained charitable status in April 1994.
- 2.2 Fife Regional Council and, latterly, Fife Council provided financial support to the project by way of one-off grants and grants under section 10 of the Social Work (Scotland) Act 1968. Section 10 enables councils to contribute to any voluntary organisation whose objective is to promote social welfare. The primary purpose of the local authority funding was to meet the Group's transport needs – principally transporting clients to and from the lunch clubs. From 1995/96 to 1997/98, the Group was also funded by the Unemployed Voluntary Action Fund (UVAF), a body funded by grant from the (then) Scottish Office. This funding was provided to meet the costs of a part-time co-ordinator post and related expenditure, such as the rental of office accommodation for the co-ordinator, and to cover other expenses relating to volunteers. Further income was generated from fund-raising, bank interest and payment for meals by those attending the lunch clubs.

2.3 The Group relied on volunteers to operate the lunch clubs but it frequently experienced difficulties in maintaining volunteer numbers at adequate levels. The Group first appointed a co-ordinator in June 1995 who remained in post until resigning in May 1996. A successor was appointed in July 1996 until her employment was terminated in March 1998. In July 1998 the management committee resigned, at which point Fife Council's Social Work department assumed responsibility for running the Group's activities until January 2000 when Age Concern agreed to manage and provide the service.

### **3. EXTERNAL AUDITORS' FINDINGS**

3.1 The Council's external auditors have investigated the relationship between Fife Council and the Third Age Group. Their remit was to consider how funds provided by Fife Council (and the predecessor Regional Council) to the Group had been used through establishing the nature, extent and detail of the relationship. They also considered the role of elected members and the governance issues which emerged from their enquiries.

3.2 The auditors' detailed report is reproduced as Appendix A to this report. The remainder of this section summarises the auditors' findings.

#### **Financial assistance**

3.3 The external auditors' investigation has confirmed the details of funding and expenditure included in the Chief Executive's report dated March 2002.

3.4 In the period from 1992 to 2000, the local authority provided grants totalling about £98,000. Of this, £71,000 was used to meet transport costs and about £13,000 was transferred from the Group's bank account to Age Concern when it assumed responsibility for the service in 2000. The balance of about £14,000 was used for other purposes relating directly to the Group's activities, including the purchase of equipment and payment to the project co-ordinator for additional hours worked.

3.5 In order to identify the contributions provided by the Council and how these had been applied, the auditors attempted to reconstruct the records for the Third Age Group. They found that the Group's records had been poorly maintained and were incomplete. However, from their analysis

the auditors were able to conclude that, in all material respects, the funds provided by the Council had been used for the purpose it intended at the time of authorising the grants.

- 3.6 The auditors have also confirmed that, over the period that the management committee was in place, the amounts provided to the Third Age Group under section 10 were authorised properly by the Council (albeit that, with the exception of the initial application, grant application forms have not been located). However they expressed serious concerns about the circumstances in which grants totalling £25,000 were paid by the Council to the Third Age Group in the period following the resignation of the management committee. They also concluded that the Council's on-going monitoring of the Third Age project was not undertaken in a systematic way, with no assessment against agreed objectives or assessment of its financial management arrangements. This can be contrasted with the action taken by UVAF who, as result of its monitoring arrangements, withheld grant because of the Group's poor performance in meeting recruitment and training objectives.

#### **Social Work department**

- 3.7 The auditors found that staff from the Council's Social Work department had been involved throughout the duration of the project. Social Work staff assisted in setting up the lunch clubs and, following the establishment of the Third Age Group, acted as 'link officers' by providing help and advice. Following the resignation of the Group's co-ordinator and management committee, Social Work staff took over the management of the Group's activities, including the financial records, banking and operational duties. Finally, the Social Work department negotiated the arrangements under which Age Concern assumed responsibility for the service.
- 3.8 The auditors indicated that the support provided to the Third Age Group was consistent with the Council's aim of encouraging voluntary organisations to participate in community development. However they considered the method by which the Council supported the Third Age Group following the resignation of the management committee did not accord with acceptable practice. In particular, in maintaining the service, Social Work staff adopted the role previously undertaken by the management committee. The Third Age Group's bankers were not informed of the resignation of the committee and Social Work staff held themselves out to be secretary and treasurer in order to operate the bank accounts. The auditors considered these actions as 'wholly irregular'.

- 3.9 The auditors have reported that a contract was agreed between the Social Work department and Age Concern which provided for the service to be undertaken by Age Concern with effect from 1 April 2000. As an interim measure an agreement was reached whereby Age Concern provided the service from January 2000 to March 2000 in return for the balance of funds held in the Third Age Group's bank account. Setting aside the question of the actions of Social Work staff in operating the bank account, the auditors are of the view that the unused Council funding should have been returned to the Council and a report made to the Council on the options available to secure continuity of the lunch clubs.
- 3.10 Despite the fact that the lunch club service was procured by Social Work from 1 April 2000 by way of a three year contract, the service continued to be included on section 10 grant lists provided to the Council for approval in 2000/01 and 2001/02. In 2001/02, grants paid by the Council amounted to £26,500. Had the Council paid in accordance with the contract rather than by grant the auditors calculated that it would have saved about £1,000.

#### **Provision of meals**

- 3.11 Throughout the life of the Group and during Social Work's involvement in managing the service, the Council's Catering Direct Service Organisation (DSO) supplied meals for the lunch clubs from local school kitchens. In most cases the DSO raised invoices for meals supplied and these were paid by the Third Age Group. However the auditors identified that, for one of the lunch club locations, cash was banked directly by the Group into the Council's bank account and no invoices were raised by the DSO.

#### **Governance issues**

- 3.12 The auditors' report summarises the Council's response to concerns raised about its involvement with the Third Age Group. Following its consideration of the Chief Executive's report of December 2001, the Council's Standards and Audit Committee requested a further investigation of the procedures followed in processing grants to the Group, particularly in the period following the resignation of the management committee. The Chief Executive's subsequent report in March 2002, which examined in more detail the Council's relationship with the Third Age Group, concluded that there was no evidence of Council funds provided to the Group being used other than for the purpose for which it was established, but he was critical of the actions of certain Council employees.

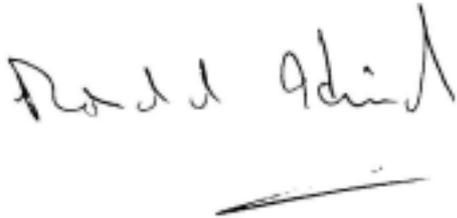
- 3.13 The auditors have indicated that their investigation supports the Chief Executive's findings on the events that took place within Social Work in maintaining the service following the resignation of the management committee, as set out in his March 2002 report. However they have highlighted the inconsistency between the Chief Executive's findings in his initial report (December 2001) in which he concluded that there was no evidence to suggest that any officer within the Council acted inappropriately in connection with the provision of support to the Third Age Group and his conclusion (in March 2002) that there was evidence of inappropriate action being taken by a number of Council employees. The auditors have reported that the Chief Executive relied on explanations he was given which he subsequently found to be inaccurate.
- 3.14 As part of their investigation, the auditors reviewed the Council's Register of Members' Interests and found no declaration of interest in relation to the Third Age Group. While the Council's declaration form does not specifically require details of involvement with voluntary organisations, it does require disclosure of employment interests. On this basis, the auditors are of the view that the elected member who served as the Third Age Group's part-time paid co-ordinator in the period from June 1995 to May 1996 should have declared this as an employment interest.
- 3.15 The auditors' report highlights their concerns about the role of the Social Work department in the project, particularly its failure to report to the Council on the problems experienced in the Third Age Group. Setting aside the actions of Social Work staff in assuming the role of the management committee, the auditors expressed particular concern that proper financial records were not retained.
- 3.16 The principal focus of the auditors' investigation was Fife Council's involvement with the Third Age Group. However, because of the close involvement of Social Work officers in the management of the Third Age Group and also to enable them to develop as full a picture as possible of the Council's involvement, the auditors found it necessary to review governance arrangements within the Third Age Group. This highlighted significant shortcomings in terms of the Group's administrative procedures, accounting and financial stewardship generally.

#### **4. CONCLUSIONS**

- 4.1 The purpose of this report is to provide an independent view on the Council's involvement in providing support to the Third Age Group. From the information available, the auditors have indicated that there is sufficient evidence to conclude that the funds provided by the Council were in all material respects used for the purpose intended. They have also concluded that the funds were properly authorised by the Council, although I share their concerns, both in relation to the lack of monitoring by the Council and in relation to the amounts paid in 1998/99 and 1999/2000 after the Group's management committee had resigned. These amounts totalled £25,000.
- 4.2 It is appropriate in cases where concerns are expressed about the actions of a council that internal investigations are initiated and that the findings of those investigations are reported to the council. In this case, the Chief Executive conducted enquiries and reported to the Council's Standards and Audit Committee in December 2001. Following the Committee's decision that a further investigation was required, the Chief Executive provided a further more detailed report in March 2002. I understand that the Council will now be following up by reviewing its arrangements for dealing with arms' length organisations generally and, where it considers appropriate, it will be undertaking further investigations in relation to its involvement with the Third Age Group, with reference to its agreed disciplinary procedures.
- 4.3 The auditors' report highlights the inconsistency between the Chief Executive's report in December 2001 and his second report in March 2002. The Chief Executive's more detailed investigation involved him in reviewing documentation which only came to light after he had concluded his first enquiry and led him to reverse his initial conclusion that no officers had acted inappropriately. While the need for a further enquiry by the Chief Executive may have served to undermine public confidence in the Council's internal investigation, in my view, the overall approach adopted by the Council to address this matter was appropriate in the circumstances. The process followed, involving the Chief Executive and the Standards and Audit Committee, was in my view consistent with the principles of good corporate governance in dealing with a matter of this nature.

- 4.4 It is clear from the auditors' report that the Social Work department maintained close links with the Third Age Group over the life of the project, from the establishment of the Third Age Group through to the transfer of service responsibilities to Age Concern. The main concern arising from this relates to the actions taken by Council staff following the resignation of the management committee. While this may have been in good faith and in the interests of maintaining the lunch club service, they effectively assumed management responsibility for the Group's activities. This was a wholly inappropriate role for Council officers to adopt. It is important that councils and their officers are clear about their respective roles and responsibilities in dealing with any arms' length organisation. The auditors have also expressed concern about Social Work's approach in agreeing new arrangements involving Age Concern.
- 4.5 The Council requires its elected members to make a formal disclosure of certain interests, including employment interests. The auditors identified that the elected member who served as the Third Age Group's paid co-ordinator should have disclosed this as an employment interest but did not do so. The Council should remind its elected members of the disclosure requirements and monitor to ensure compliance.
- 4.6 The auditors have indicated that meals were provided by the Council's Catering DSO and it appears that the billing and collection arrangements were generally sound. But there is some evidence that a small element of the service was provided outwith the contractual arrangements. Steps should be taken to ensure that all DSO and similar trading type activities are conducted strictly in accordance with contractual arrangements.
- 4.7 While the main focus of the auditors' review has been the Council's involvement with the Third Age Group, their enquiries led them to consider governance arrangements within the Group itself. This pointed to weaknesses in administrative procedures and in accounting and financial stewardship generally. Because the Third Age Group was a recognised charity the appropriate charity regulators may wish to investigate these matters further.
- 4.8 In my overview report on the 2000/01 local authority audits, I highlighted the importance of appropriate monitoring mechanisms in cases where councils provide public funds to arms' length organisations. The current Accounts Commission/COSLA 'Code of Practice on Funding External Bodies and Following the Public Pound' sets out best practice in establishing relationships with bodies external to the council where there is a 'substantial funding relationship'. This statutory report highlights the need for councils to follow the key principles

of the Code if they are to avoid the significant issues which have emerged from the reviews of Fife Council's dealings with the Third Age Group. As announced previously, Audit Scotland will be conducting a national review of Scottish councils' involvement with arms' length organisations. In the meantime, to maintain public confidence, councils should identify and review existing arrangements to ensure that suitable safeguards are in place, taking into account the level of funding provided and the potential risk to public funds.

A handwritten signature in black ink, appearing to read "Ross Hind", with a horizontal line underneath it.

**R HINDS**  
**Controller of Audit**  
**2 May 2002**

**Investigation into the Relationship Between  
Fife Council and The Third Age Group  
and Other Related Matters**

**Audit Report No: 2002/11**

**30 April 2002**

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Chartered Accountants  
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## 1. Introduction

### 1.1 Remit

1.1.1 Audit Scotland requested this investigation following on from our preliminary enquiries into a complaint received regarding aspects of the relationship between Fife Council (and previously Fife Regional Council) and a charity known as The Third Age Group (the Group), and the report produced by the Council's Chief Executive entitled "Investigation into conduct of Fife Council / Fife Regional Council - Financial and other support to Third Age Group" for the 8 March 2002, Standards and Audit Committee of Fife Council. The report was requested by the Standards and Audit Committee following a previous report of the Chief Executive to the Committee in December 2001. That report was presented to the Committee at the request of the Leader of the Administration of the Council following press speculation regarding the Councils' funding of the Group.

1.1.2 Our remit was to:

- Consider how Fife Council and Fife Regional Council (the Councils) funds had been used through establishing the nature, extent and detail of the relationship between the Councils and the Group.
- Consider the role of Councillors in the Councils' dealings with the Group.
- Consider governance issues within the Councils and the Group.

### 1.2 Background to The Third Age Group

1.2.1 The Group was established in 1992 to consolidate pilot work undertaken by Fife Regional Council Social Work department to run day centres providing meals and social contact to frail older people in the Glenrothes area. A Management Committee was formed in November 1993 to oversee the running of the Group. Social Work staff were involved in helping to get the Group running, having previously set up and run the lunch clubs with the help of volunteers. The constitution of the Group, adopted in March 1994, noted the following amongst its aims:

*"The aims of the Group shall be to promote any charitable purposes for the benefit of the socially isolated elderly residing in the area of benefit, Glenrothes and its neighbouring communities and in particular the advancement of education, the furtherance of health and the relief of poverty, distress and sickness by ..... providing Day Centre Care of a warm, welcoming nature to help develop a sense of well-being and worth among the elderly so that their quality of life is improved and they enjoy a full life within their community....."*

1.2.2 In April 1994 the Group were recognised by the Inland Revenue as a charity for the purposes of Section 505, Income & Corporation Taxes Act 1998. The Group was entitled to call itself a Scottish charity, reference no. SC022423.

1.2.3 Volunteers ran individual day centres that provided clients with tea/coffee on arrival and a mid-day meal. Each centre was responsible for its own record keeping in relation to income from meals, and expenditure from that income, including payment for meals. In 1996 the responsibility for meal payments for all but one of the day centres was taken over centrally. Responsibility for recording all income from meals and the cash expenditure made before banking the net income remained with the volunteers at the individual day centres.

## 1. Introduction (Cont'd)

### 1.2 Background to The Third Age Group (Cont'd)

- 1.2.4 The Councils made some one-off grants for equipment etc., but primarily the Councils' funding was to cover the cost of transporting clients to and from the day centres and the cost of transporting meals. In 1995 the Group secured funding from the Unemployed Voluntary Action Fund (UVAF) to employ a paid, part-time co-ordinator, to provide office accommodation for the co-ordinator and other expenses relating to volunteers. UVAF was funded by the then Scottish Office.
- 1.2.5 The Group relied on volunteers to operate the day centres, but the minutes of the Management Committee show that there were frequently difficulties in maintaining volunteer numbers at adequate levels. In July 1998 the Management Committee resigned. At its meeting of 9 June 1998 the Management Committee minuted "*...a request that every effort be made to keep the day centres running after this date.*"

## 2. Relationship between Fife Council (and Fife Regional Council) and The Third Age Group

2.1 The relationship between the Councils and the Group can be summarised as follows:

- Non-financial assistance
- Financial assistance
- Provision of meals

### 2.2 Non-Financial Assistance

2.2.1 Social Work staff assisted in setting up the project with a link officer provided throughout the life of the Group to give help and advice. Council premises were made available for meetings. From October 1994, until the Management Committee resigned in July 1998, a Councillor attended the Group's committee meetings as a representative of the Councils but was regarded by the Group as a non-voting advisor.

2.2.2 Following the termination of the employment of the Group's co-ordinator in March 1998, and the resignation of the Management Committee, Social Work staff took on the functions of managing the Group's activities, keeping financial records, operating the bank account, and running some day centres due to the lack of volunteers. The Social Work department finally negotiated with another provider to take over the management and running of the service that had been provided by the Group from January 2000.

### 2.3 Financial Assistance

2.3.1 Financial support was provided throughout the life of the Group through one-off grants and Section 10 funding. There is evidence to suggest that in the early years Fife Regional Council Social Work department also paid for meals at some day centres. Grant funding and other support by councils of voluntary organisations is made under Section 10 of the Social Work (Scotland) Act 1968, which allows for financial and non-financial support to be given. In the period from 1992 to 2000 the Councils made the following grant payments:

	£
Section 10 grants	88,843.80
Other grants	8,979.37
	-----
	97,823.17
	=====

2.3.2 This figure was reported by the Chief Executive in his report and agrees with the records of the Councils. Other grants include a payment of £4,500, which has been the subject of a separate report by the Chief Executive. This grant appears to have been made to fund additional hours for the co-ordinator in 1997/98, however, the Group's payroll records show that only £3,278 was paid for the co-ordinator's additional hours. In that year the UVAF funding for the co-ordinator's part-time salary was withdrawn when the Group failed to meet its review criteria. The co-ordinator continued in post until March 1998.

## 2. Relationship between Fife Council (and Fife Regional Council) and The Third Age Group (Cont'd)

### 2.3 Financial Assistance (Cont'd)

2.3.3 Minutes of the Group's Management Committee indicate that Social Work (of Fife Regional Council) were paying rent for at least one of the day centres in the early days of the project. We have not quantified the amount paid however the minutes of the Group indicate that a rent of £120 per annum was involved.

2.3.4 The financial and non-financial support provided to the Group until the Management Committee resigned is consistent with the Councils' aims to encourage voluntary organisations to participate in community development and is similar to help given to other organisations. Social Work support of community organisations that encounter difficulty, to protect services or re-establish the organisation, is also not unique to this Group. However, the method employed to achieve support in this case following the Management Committee's resignation does not meet with accepted practice.

### 2.4 Provision of Meals

2.4.1 Throughout the life of the Group, and during Social Work involvement in managing the service, the Councils' Domestic Services Catering division supplied the meals from a number of school kitchens located in the Group's area of operation. Section 2(2)(d), as defined by Section 4(1)(c) of the Local Government Act 1988 sets out defined activities in relation to the provision of meals in these circumstances by permitting "*Catering for purposes of ..... welfare ..... preparing and delivering, meals for consumption in day centres .....*"

2.4.2 Information from the Debtors Ledger Section of Fife Council shows that the following amounts were recorded through a number of Third Age Group accounts from April 1996 to January 2000. This includes the Social Work account for the period through 1998 to 2000.

	£
Invoices raised for meals	13,580.33
Payments received for meals	12,999.25
	-----
Amount written off	581.08
	=====

2.4.3 We have not identified the equivalent detail for the period prior to April 1996.

2.4.4 In addition to these invoices one day centre banked cash directly into the Councils' bank account and no invoices were raised for the amounts due. Records show that for the period from 1996/97 to 1999/00 income of £4,071 was received from this source.

2.4.5 In his report the Chief Executive noted difficulty with payment of Council invoices but concluded that they were subsequently paid. The amount written off does not support this view. We have not been able to determine why the £581.08, which relates to invoices raised in 1996, was written off beyond the fact that it had been in dispute for a long period. Proper write off procedures were not observed.

2.4.6 During school holidays the meals appear to have been supplied from an alternative source outwith the Councils.

### **3. Councillor Involvement with the Group**

- 3.1 There is no evidence of Councillor involvement with the setting up of the Group. Two Councillors maintained an ongoing involvement with the Group. At the Group's request one of the Councillors was put forward by Fife Regional Council to act as its representative on the Management Committee, although the Committee minuted the Councillor as a non-voting advisor. The Councillor attended Management Committee meetings from October 1994 until June 1998. A number of other Councillors had a passing involvement with the Group through speaking at AGMs or from visiting the day centres. Comments by Councillors, minuted by the Management Committee, demonstrate that those who came into contact with the work of the Group thought highly of it, and thought that it gave very good value for money.
- 3.2 A newly elected Councillor was appointed as the Group's first co-ordinator in June 1995. The co-ordinator's post was on a part time basis. In May 1996 the Councillor vacated the post but was later elected to the Management Committee of the Group at its AGM on 21 May 1996 and subsequently was elected as vice-chairperson of the Group on 4 June 1996. The Councillor continued as vice-chairperson until the Management Committee resigned in July 1998.
- 3.3 A review of the Councils' Registers of Members' Interests shows that, throughout the life of the Group, no Councillor had declared an interest in the Group. The declaration form does not ask specifically about involvement with voluntary organisations, but it does ask about employment or other business interests. The Councillor employed as the Group's paid part time co-ordinator did not declare this employment. In our opinion this declaration should have been made.

## 4. Governance Issues - Fife Council

4.1 Governance issues in relation to the Council in respect of the following were considered:

- the monitoring of the Group's activities;
- Section 10 grant awards;
- the actions taken to maintain the service when the Management Committee resigned;
- the retention and maintenance of records;
- the steps taken to secure the continuation of the service through the transfer of the provision of the service to a new provider;
- the scrutiny and investigation undertaken by the Council to deal with the issues raised in late 2001;

### 4.2 Monitoring of the Group's activities

4.2.1 On-going monitoring of assessment against previously agreed objectives or of the Group's financial management arrangements were not undertaken in a systematic way during the lifetime of the Third Age project. Accordingly, there is no evidence of formal evaluation of the project to help inform the determination each year of Section 10 grant awards. This is in contrast to the monitoring undertaken by the Group's other grant provider UVAF, which did monitor the Group's progress against predetermined goals.

### 4.3 Section 10 Grant Awards

4.3.1 The Chief Executive has concluded in his report that approval of Section 10 grants during the period when the Management Committee of the Group existed followed the correct approval procedures at that time, with the exception that following the Group's initial application for grant he was unable to locate subsequent grant application forms. Our review of the available evidence supports the conclusions drawn by the Chief Executive.

### 4.4 Actions taken when the Management Committee resigned

4.4.1 In his report to the Standards and Audit Committee the Chief Executive detailed the events that took place within the Social Work department in relation to the maintenance of the service provided by the Group when the Management Committee resigned. Our investigation supports his findings.

4.4.2 There is evidence from a variety of sources that the service provided by the Group was needed and valued by its clients. While the evidence suggests a form of evaluation of the need for the service took place, the process was not systematically documented to support the action taken.

4.4.3 In maintaining the service a number of the Social Work team took on the role of the Management Committee. The Group's bankers were not informed of the resignation of the Management Committee and certain members of the Social Work team held themselves out to be the secretary and treasurer of the Group in order to operate the bank accounts as if the Committee still existed. This action by Social Work staff was wholly irregular.

## **4. Governance Issues - Fife Council (Cont'd)**

### **4.4 Actions taken when the Management Committee resigned (Cont'd)**

- 4.4.4 These actions resulted in the continuation of Section 10 payments to the Group's bank account after the point that the Management Committee resigned. The Council's Section 10 grant approval for 1998/99 was made in March 1998 before the Management Committee resigned, although payments of grants for this year totalling £10,044.50 were made after the Committee's resignation. Grant approval and payment of £15,066.75 was made for 1999/00 after the Management Committee resigned. Grant payments should have been discontinued once the Management Committee resigned, and the Group should not have been included on the list for Section 10 grants award presented to Committee in March 1999. The continuance of Section 10 grant was wholly inappropriate and gives rise to concern over the procedures adopted by the Council.
- 4.4.5 The Chief Executive has made recommendations that should address these governance issues. The Working Group on Voluntary Bodies, made up of Councillors and officers of Fife Council and representatives of the voluntary sector, is in the process of finalising a report that considers what advice and support should be given to community organisations in various circumstances, and seeks to establish guidelines for Council staff in this area.

### **4.5 The retention and maintenance of records**

- 4.5.1 In his report the Chief Executive has identified the circumstances leading to the destruction of the records relating to the Group's activities and the services provided under Social Work management.
- 4.5.2 Records from the Group were transferred to Social Work offices following the resignation of the Management Committee, however the statutory requirement to retain the records for six years was not observed.
- 4.5.3 Notwithstanding the fact that Social Work staff should not have taken on the role of the Management Committee, having done so, they failed to retain the records necessary to allow accounts to be prepared. The records that exist from this period suggest that records were maintained, but they are too incomplete to allow a full audit to be undertaken.

### **4.6 Transfer to new service provider**

- 4.6.1 Attempts to find an alternative service provider to take over the services of the Group took more than six months from the production of a service specification to the transfer of the service. Records of the decision making process during this period have not been maintained. From the action taken it appears that a decision was made to procure the service as a Social Care contract rather than to continue funding a voluntary group through Section 10 grant. Correspondence relating to the process demonstrates that two providers of a similar service were approached. Both providers prepared quotations for the service in response to the specification, however the second provider was only approached after the quotation from the first provider was deemed to be too expensive. The process followed the Council's tendering procedures in relation to procuring social care services of this nature.

## 4. Governance Issues - Fife Council (Cont'd)

### 4.6 Transfer to new service provider (Cont'd)

- 4.6.2 The negotiation for the contract started in late 1999 but was not completed until November 2000. While signed, the contract was undated and took retrospective effect from 1 April 2000. As an interim measure an agreement was reached that the provider would take over the service from mid-January and run to 31 March 2000 in return for the balance of funds held by Social Work in the Third Age bank account. The funds, totalling £13,383.55, were a mixture of remaining Section 10 monies and the excess of cash paid for meals over the cost of meals. Notwithstanding the question of whether the bank account should legally have been operated by Social Work, at this point the correct course of action would have been to return unused Section 10 monies to the Council and take a report to committee on the change in circumstances to gain approval for the award of grant to the new provider or to use powers delegated to the Head of Social Work to enter a contract for the service for the period from January.
- 4.6.3 The new provider was given £13,383.55 to provide the service from mid-January 2000 until the end of March 2000. The cost for three months at the new contract price would amount to £6,250, which is £7,133 less than was paid. The reason for this is not documented, but unless the new provider had one-off costs to incur in setting up the project, it seems reasonable that some of this money should have been returned to the Council. A figure of £7,070 is currently being held in the reserves of the new provider, identified as "the Third Age Accumulated Reserve"
- 4.6.4 Despite the fact that the service was to be procured by Social Work from 1 April 2000 under a three-year contract that required the provider to invoice the Council on a four-weekly basis, the service continued to be included on Section 10 grant lists presented for committee approval for 2000/01 and 2001/02. The new provider has not raised invoices.
- 4.6.5 The contract provides for £480.76 per week, giving a total cost of £24,999.52 per annum. The contract does not include any mechanism for uplift over the three years, however an uplift of 2% would have been applied in 2001/02, giving a contract price of £25,500 for that year.
- 4.6.6 Section 10 payments to the new provider have been made as follows: The payment for 2001/02 was subject to a general uplift for Section 10 grants of 6%.
- |         |         |                        |
|---------|---------|------------------------|
| 2000/01 | £25,000 | (4 payments of £6,250) |
| 2001/02 | £26,500 | (4 payments of £6,625) |
- 4.6.7 The result of the payment being made on Section 10 is that £1,000 more than the contract price has been paid in 2001/02.
- 4.6.8 The contract with the new provider sets out measurement criteria and a monitoring regime that has not yet been implemented. The monitoring regime includes an examination of the certified or audited annual accounts of the provider, quarterly review meetings in the first year (thereafter at least six-monthly) and review of six-monthly satisfaction questionnaires with clients.

## 4. Governance Issues - Fife Council (Cont'd)

### 4.7 Scrutiny and Investigation

- 4.7.1 Our investigation supports the findings and conclusion of the Chief Executive in his report to the Standards and Audit Committee in March 2002 on the Councils' support to the Group. His conclusions differ from those in his earlier report in December 2001, in respect of the actions of Council employees. In his first report he concluded "*..... there is absolutely no evidence to suggest that any officer within the Council acted inappropriately in connection with the provision of support to the Group.*" However in his later report he concluded "*There is evidence of inappropriate action being taken by a number of the Council's employees*".
- 4.7.2 We have examined the procedures undertaken by the Chief Executive in investigating these matters. We have concluded that his actions during both investigations were reasonable in the circumstances in that his conclusions were based on the explanations given to him and other information available to him at the time they were made. Some of the explanations originally given to the Chief Executive have subsequently been shown to be inaccurate as a result of some records, including minutes of the Group's Management Committee, being found in the period between the Chief Executive producing his reports in December 2001 and March 2002. The Chief Executive has discussed this in his March report.
- 4.7.3 The first report to the Standards and Audit Committee in December 2001 was made at the request of the Leader of the Administration of Fife Council in response to press coverage of the Council's involvement with the Group. The second report was the result of the Committee's request for further investigation of the procedures followed in processing grants to the Group in the period following the resignation of its Management Committee.
- 4.7.4 In reviewing the process of investigation we have attended the Standards and Audit Committee meetings and observed the debate on the reports before them. These debates have been undertaken in a mature and robust manner, with a non-party approach.
- 4.7.5 In our opinion the actions of the Leader of the Administration, the Standards and Audit Committee and the Chief Executive in recognising and investigating the issues relating to the Group, with the consequent actions that have been approved to address the failings identified, are an example of sound governance operating well in practice.

## **5. Other Matters**

### **5.1 Third Age Governance and Financial Stewardship**

- 5.1.1 In examining the Councils' relationship with the Group we also considered the Group's governance arrangements. A number of significant shortcomings were identified in the Group's procedural and accounting arrangements throughout its lifetime.
- 5.1.2 In his second report the Chief Executive has outlined the circumstances surrounding the destruction of the majority of the Group's records. We have examined the remaining records, together with the Council's records relating to meals supplied to the Group. Evidence indicates that record keeping was poor, both at the individual day centres, and for the Group as a whole. The centrally kept records worsened after the change of co-ordinator and treasurer in early 1996.
- 5.1.3 Despite the poor record keeping and incomplete records, there is sufficient evidence to conclude that in all material respects the funds provided by the Council to the Group were used for the purpose intended at the time of the grants being authorised.

### **5.2 Funding Sources**

- 5.2.1 The scope of the financial review reported by the Chief Executive was to establish the amounts paid to the Group by Fife Council and Fife Regional Council, and to establish whether the Group used the funds provided for the intended purpose (primarily to fund transport needs of the Group). Our investigation verified the detail of funding and expenditure at table 1 and 2 of the Chief Executive's March 2002 report as factually accurate. We have considered the Group's financial position in a wider context and have identified that the Group's income came primarily from the Section 10 and other grant funding from the Councils and grant funding from UVAF. Other income was generated from fundraising, bank interest, and the payments for meals made by the clients at the day centres. Due to the incompleteness of the records it is not possible to quantify the extent of the other income with certainty.
- 5.2.2 Section 10 grant was primarily given to meet the costs of transport, but other grants were made for the purchase of equipment and to pay part of the co-ordinator's salary. The total funding from the Councils in the period 1992 to 2000 was £97,823.17.
- 5.2.3 UVAF provided funding to the Group for 1995/96, 1996/97 and 1997/98 totalling £37,500. This was intended to fund a part-time co-ordinator, volunteers and employee's expenses, office and occupancy costs and training to reduce isolation and loneliness by involving volunteers in providing day care for frail older people.
- 5.2.4 Regular monitoring of the expenditure and achievements of the Group and co-ordinator in relation to volunteers was undertaken by UVAF. This shows that the co-ordinator and the Group were not achieving the expected level of volunteer recruitment and training. This position is borne out by the minutes of the Group. The final payment of UVAF funding was withheld as a result of the Group's poor performance in meeting recruitment and training requirements.