

## **REPORT FOR: Grants Advisory Panel**

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**Date of Meeting:** 2 December 2010

**Subject:** INFORMATION REPORT – Harrow  
Association of Voluntary Services  
Update

**Responsible Officer:** Brendon Hills, Corporate Director  
Community and Environment

**Exempt:** No

**Enclosures:** None

### **Section 1 – Summary**

This report sets out the findings of the (PriceWaterhouseCoopers) PWC investigation in to Harrow Association of Voluntary Service (HAVS) and the Council's initial response to the report.

**FOR INFORMATION**

## **Section 2 – Report**

2.1 The Council is currently in the process of drafting a new vision and priorities. The draft vision is '*Working together: our Harrow, our Community*'. A strong and vibrant voluntary and community sector can contribute towards achieving this vision. The role of HAVS as the Council for Voluntary Service (CVS) in the borough is to support the voluntary sector, however its ability to fulfil this function has been difficult since an investigation into HAVS was commissioned. This report reviews the findings of the investigation and outlines Harrow Council's response and actions following on from the recommendations.

### **2.2 *Role of HAVS***

HAVS is the second-tier, infrastructure organisation for the voluntary and community sector in Harrow. It has operated in the borough for many years and provides support to voluntary organisations through a range of services including capacity building support to small groups; fund-raising advice; CRB (Criminal Records Bureau) checks; recruitment and support with management of volunteers; facilitating representation of the views of the voluntary sector to statutory agencies.

HAVS also plays a key role in the Harrow Strategic Partnership including organising the voluntary and community sector forum; representing the views of the sector at meetings of the Harrow Chief Executives group and Harrow Strategic Board.

Most boroughs have an organisation like HAVS delivering the services of a CVS (Council for Voluntary Service). The role and purpose of a CVS, as set out by NAVCA (National Association of Voluntary and Community Action is the national membership association and development agency for local support and development organisations) is to;

- Identify needs and facilitate improvement in service provision.
- Assist local organisations to function more effectively.
- Facilitate effective communication, networking and collaboration amongst local groups.
- Enable the representation of the diverse views of the local sector to external bodies.
- Enhance the sector's role as an integral part of local strategic planning and policy-making

### **2.3 *Background to investigation***

In June 2010 Harrow Council with the agreement of HAVS trustees engaged PWC to undertake an independent investigation following concerns raised by HAVS auditor during the audit of 2008-09 financial records. These concerns were set out in a letter to the Charity

Commission dated 3<sup>rd</sup> June 2010.

The investigation was commissioned to look in to:

- a) The governance arrangements and high level financial controls established by HAVS.
- b) Provide an independent assessment of the 'material and significant issues' highlighted by the auditor of HAVS and Harrow Commission for Racial Equality (HCRE) to the Charity Commission.

#### 2.4 ***Findings of PWC investigation***

PWC undertook an investigation in to the allegations made by the auditor and produced a report on its findings. The conclusions of the report were:

- The governance arrangements within HAVS are inadequate when compared to the Charity Commission's good practice guidance.
- The Board of Trustees do not receive sufficient quality or depth of information, particularly financial information, in order to fulfil their governance role.
- There are weaknesses in the internal control environment of HAVS and some serious breaches of governance including the bonus scheme arrangements and the manipulation of reporting to funders.
- The Board of trustees are not operating effectively and there is a need for greater leadership, clarity and understanding of trustees roles and responsibilities and improved reporting.
- During the investigation examples of malpractice in relation to completion of monitoring reports to funders was also highlighted.
- A compromise agreement signed with the former HCRE director and former trustee was withheld from the Auditor which resulted in the auditor being unable to form an audit opinion on the accounts to 31<sup>st</sup> March 2009.
- Bonus and other payments made to the CEO resulted in payments being made that were significantly in excess of her basic salary. Some payments were approved by the former Chair and acting Chair acting upon recommendations from the CEO. Some payments for TOIL (Time off in lieu) not taken and extra work undertaken on behalf of HCRE were authorised by the Board of Trustees.
- Bonus payments were made gross, with income tax and NIC payments calculated after the payments had been made.
- The bonus scheme was deliberately withheld from other trustees, in particular, the trustees appointed by the Council.
- An inappropriate contract had been entered into by the CEO with Harrow Council without the knowledge of the trustees. The contract

payment was returned to the Council but not until the issue was identified and raised by the auditor with the CEO.

## 2.5 **Report recommendations:**

The report made a number of recommendations including:

1. For HAVS to continue to be the vehicle for supporting the third sector in Harrow, and for the Council to resume funding, robust governance should be put in place to provide funders, the third sector and the public with the necessary level of assurance that the organisation is fit for purpose and that funds are being used effectively and efficiently.
2. The quality of reporting is improved in order to allow trustees to participate in the decision making process and fulfil the obligations of their role. Where it is appropriate, authority should be delegated to the officers of the organisation but important that this is formalised in the constitution of the charity and approved by all the trustees.
3. The position of Chair is clarified and any executive powers exercised by the Chair are agreed by all trustees and that the constitution is amended accordingly.
4. The relationship between HAVS and HCRE is clarified with all HAVS trustees being made aware of their responsibilities in relation to HCRE.
5. That the council continue to be engaged in the governance of HAVS and that regular council assessments continue in order to provide assurance over the robustness of the governance arrangements.
6. A full review of funding streams in order to provide comprehensive assurance that funds are being used appropriately.
7. The calculations of PAYE due on the bonus payments and any tax on the benefit that employees received as a result of the PAYE being paid by HAVS should be recalculated and checked by an independent tax accountant.
8. Internal audit review of HAVS financial controls and annual internal audit of HAVS internal financial control systems.

## 2.6 **Role of the Charity Commission**

The Charity Commission have opened a 'regulatory compliance' investigation in to HAVS that will look in to the following areas:

- the administration, governance and management of the charity by the trustees;
- potential financial mismanagement;
- the potential risk to the charity's resources and reputation; and
- issues that could damage public trust and confidence in charities or in the Commission as an effective regulator.

The scope of the regulatory compliance case is stated as follows:

- establishing the charity is operating effectively and appropriately applying charitable funds to its beneficiaries;
- ensuring that the trustees are acting responsibly in discharging their legal duties and responsibilities as trustees in dealing with, and responding to, the allegations; and
- the protection of the charity's assets, including its reputation.

The implications of the Charity Commission investigation will be considered by the Council when the investigation is complete. No timescale has yet been offered by the Commission for this.

### Current situation

- 2.7 The Council recognises that there is a significant role for a strategic, second-tier organisation such as HAVS in the borough, not only in supporting the sector through capacity building and representation but also in providing a channel of communication between the sectors. However, as is clear from the PWC report, in order to improve the organisation's effectiveness, there is a significant amount of work to do to improve governance, leadership, address staffing matters and improve financial policies and practice. In addition to improving organisational effectiveness it will also take time to rebuild the organisation's reputation both locally and sub-regionally.
- 2.8 Harrow Council provided a copy of the PWC report to HAVS trustees on the 10<sup>th</sup> August 2010 and requested their response to the report by 25<sup>th</sup> August 2010. HAVS trustees provided their response by the deadline set. Their response (titled the 'Way Forward') has been considered by the Council and discussed with trustees.
- 2.9 The Council convened a meeting with HAVS trustees on 10<sup>th</sup> September 2010 at which they agreed to work with the Council for a time-limited period in a 'Way Forward group'. The aim of the group is to assist and monitor HAVS in developing and delivering actions that provide assurance to the Council, other funders and the third sector that they have taken the necessary steps to improve the governance and organisational policies of HAVS. HAVS trustees were also advised at this meeting to provide a copy of the report to the Metropolitan Police. The council has been advised by HAVS that a full copy of the report has now been handed to the Police and that this will now be under the scrutiny of the Crown Prosecution Service.
- 2.10 The Council has made it clear to HAVS that grant funding will not be reinstated until the Council has confidence that agreed actions have been implemented, as monitored by the Way Forward group.
- 2.11 The first meeting of the Way Forward group took place on the 15<sup>th</sup> October 2010 with HAVS Trustees and Council officers. Harrow Council is determined to work with HAVS Trustees on taking the recommendations of the PWC report forward.

- 2.12 The Way Forward group has agreed its terms of reference and work plan. The aim is to present a final report on progress to the Council in February 2011 with a view to dissolving the group by March 2011.
- 2.13 The Overview and Scrutiny committee will undertake a challenge panel in to the implications of the investigation report. The aims of this review are to look in to:
- The mechanisms that the Council has in place to monitor the use of public funds within voluntary sector organisations, in order to ensure that there is sufficient transparency, probity, organisational accountability and quality assurance
  - The role of the Council in ensuring that organisations entrusted with public funds have good governance arrangements. For example ensuring that councillors nominated to serve on the body and take up the position as trustee or acting in an 'ex officio' capacity are properly equipped to fulfil the role and understand the nature of potential conflicts of interest that could arise.
  - The extent to which the Council should support the sector in accessing support in the area of governance, for example best practice, while respecting the independence of the sector and having regard to Compact principles
  - Evaluating the Council's responsibilities in supporting local infrastructure bodies in Harrow
- 2.14 As part of this process Internal Audit are also undertaking a review of the adequacy, application and effectiveness of the arrangements in place for grant administration with particular emphasis on the allocation/ monitoring processes and the arrangements in place for dealing with/escalating issues when things go wrong. The review will also include other areas of the Council currently issuing funding to voluntary organisations, e.g. Adults & Housing, Children's Services, LAA, to establish the monitoring arrangements in place with the aim of introducing a consistent corporate approach.

The scope of the review is:

- Policies/procedures
- Applications – criteria/eligibility
- Allocation of grants/approvals
- Supporting documentation
- Appeals
- Grant agreements/service level agreements
- Payments
- Monitoring
- Managing Interests

- 2.15 In light of the investigation the corporate operational risk register has been updated and includes controls to mitigate against future risks of fraud within the Council and partnerships. These controls include proposals to include fraud awareness training amongst new starters;

review of SLA (Service Level Agreements) so that they are clearer about actions the Council will take in the event of fraud eg. Return of unspent monies, provision of audited annual accounts etc.

- 2.16 HAVS is an independent voluntary organisation, registered as a charity and company limited by guarantee. The Harrow voluntary sector compact is a written agreement, setting out a framework for the working relationship between the voluntary and statutory sectors. It sets out shared principles and commitments to underpin the working relationship between the sectors. The Council is committed to working within the principles set out in the compact.
- 2.17 Trustees and people who serve on the governing body of a charity have duties of compliance with charity law, prudence and care to the charity and they must not benefit from their role as trustee.
- 2.18 A risk register has been developed for the work of the Way Forward group. The main risk for the group is that it fails to deliver the improvements required for HAVS to recover its position as an effective second-tier, infrastructure organisation. If this happens the council may consider alternative options for procuring these services.
- 2.19 The aim of the Way Forward group will be to work with HAVS trustees to improve governance as well as organisational policies and practice. The aim is to reassure the Council, other funders and local groups that the organisation can continue to operate and is fit for purpose. This will ensure that voluntary and community organisations in Harrow continue to receive the support they need to deliver services to all equality groups in the borough.

### **Section 3 – Financial Implications**

- 3.1 The Council awarded a grant of £94,439 to HAVS to deliver its core activities in 2010/11. In addition HAVS also receives Council match funding for the post of External Funding Officer (£20,000 in year one and £10,000 in year two) and one off payments in 2009/10 £9,082 from Children's Services to fund a post that delivers the Independent Visiting Scheme.
- 3.2 All Council funding has been suspended since May 2010 until the Council is satisfied that HAVS has acted upon the PWC recommendations.
- 3.3 Funding agreements are managed through Service Level Agreements and the Council has a responsibility to ensure that public funds are being used for the purposes stated. The Council grant funding is monitored annually through a self-assessment return and monitoring visit.
- 3.4 The PWC report highlighted potential malpractice in reporting on the use of funds to funders. HAVS have been asked to undertake a full

review of funding streams by an external auditor in order to provide comprehensive assurance that funds are being used appropriately.

- 3.5 The report also recommended that the calculations of PAYE due on the bonus payments and any tax on the benefit that employees received as a result of the PAYE being paid by HAVS should be recalculated and checked by an independent tax accountant.

## **Section 4 – Corporate Priorities**

- 4.1 The Council recognises the valuable contribution that the voluntary and community sector makes in helping to achieve its corporate priorities. Through continued support of the sector the Council is able to deliver against its draft corporate priorities;

United and involved communities: a Council that listens and leads  
Supporting and protecting people who are most in need

Name: Anthony Lineker	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 18 November 2010		

## **Section 6 - Contact Details and Background Papers**

**Contact:** Kashmir Takhar, Head of Service – Community Development,  
020 8420 9331

**Background Papers:** None