



Internal Audit Report
Education and Children's Services/Corporate
Management of the Relationship with Horsecross Arts Ltd. Assignment No.16-11
January 2017

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

Horsecross Arts Ltd (Horsecross) is a charitable Trust and a Company limited by guarantee. It became a Sole Member organisation in March 2013 when new Articles of Association were adopted. The Council is the sole member. It is one of three Arms-Length External Organisations (ALEOS) from which the Council commissions services. All three are charitable trusts and sole member companies. In accordance with the Articles of Association, 3 elected members sit as Council Directors on the Board of Horsecross. As charitable Trustees, they are bound to act in the interests of the Company rather than act as representatives of the Council. A further 7 Directors with a range of skills and experience sit on the Board, to provide direction and scrutiny to management. The Trust’s strategic and day-to-day relationship with the Council is described in a Memorandum of Understanding. This sets out the protocol to ensure open and transparent communication and maintain an effective context in which services are delivered by Horsecross and monitored/scrutinised by the Council. A one-year Service Level Agreement is in place setting out the Council requirements in respect of Performing Arts, Creative Learning and business tourism (i.e. conference services) to be provided by Horsecross. This agreement is managed by the Head of Culture and Public Service Reform.

Audit testing was carried out in November and December 2016.

Scope and Limitations

The audit included interviews and discussions with officers from Education and Children’s Services, Legal Services and Finance in addition to the monitoring officer for the contract, the Head of Culture and Public Service Reform. Documents setting out the relationship with Horsecross, Committee reports detailing the development of the relationship and reports on financial and performance information were reviewed.

To avoid duplication, the audit took into consideration Internal Audit Report 15-32 Corporate Governance – Governance Arrangements for ALEOS and Statutory Bodies.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating which describes, on the basis of the audit work

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done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: That the relationship with Horsecross Arts Ltd is managed effectively

Audit Comments

The relationship between the two organisations is articulated in a number of documents, in particular: the Articles of Association; the Memorandum of Understanding and the Service Level Agreement.

Of these the Service Level Agreement (SLA) details the current obligations of Horsecross for the provision of services relating to Performing and Creative Arts and, for the Council, the management arrangements to ensure the delivery of those services to specified levels. Services are provided across Perth & Kinross, but chiefly at Perth Concert Hall and Perth Theatre (on re-opening in Autumn 2017). The current SLA was signed by the Senior Depute Chief Executive of the Council and the Chief Executive of Horsecross for the period 1st April 2016 to 31st March 2017.

Horsecross has a strategic risk register in place detailing key risks to the operation. This is reviewed by the Horsecross Board and managed by the Horsecross Chief Executive. In addition, there is a Risk Register for the Perth Theatre Project to manage the risks to the successful re-opening of the theatre following improvement works. This is managed by the Senior Officer Group responsible for delivery of the Theatre Project and chaired by the Head of Culture and Public Service Reform who is Senior Responsible Officer for the Theatre project.

The provision of Services was subject to a “soft tender” exercise in early 2016 prior to the Service Level Agreement being signed to ensure that Horsecross would provide the services required, meet Best Value and deliver continuous improvement. A work plan and a short-term Growth and Cost Pressure Action Plan were prepared by Horsecross to demonstrate the organisations capacity for service provision within the context of reducing public sector funding. Horsecross is also developing a new Business Plan to direct activity for the organisation from 2017 to 2020; this includes the planned re-opening of Perth Theatre in late 2017 and potential changes to core funding by Creative Scotland from 2017/18 onwards.

In compliance with the SLA, performance is formally managed through quarterly monitoring meetings held between the Head of Culture & Public Service Reform who acts as monitoring officer for the Council, and the Chief Executive of Horsecross. The meetings are also attended by Finance Managers from both organisations. Monthly financial monitoring is also carried out by a PKC Finance Manager to confirm that Horsecross is able to maintain its financial stability, following financial difficulties experienced in 2013, and to ensure the adequacy of the Trust's financial reporting. The Head of Culture & Public Service Reform also attends Horsecross Board meetings, in an observer capacity, which receives financial monitoring reports from the Horsecross Chief Executive.

The Service Specification details activities which are to be fulfilled to provide the required service, however it lists only one new key performance indicator (KPI) for this year and does not include any other new performance targets for 2016/17.

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The indicators which are being used have not changed from the previous agreement and some have lower targets than previously required, reflecting the current closure of Perth Theatre. The SLA does not stipulate the timeframe and reporting requirements for financial information although these are set out in a separate document agreed with the Horsecross Board in 2013. These conditions remain in place.

Internal Audit was assured that the Head of Culture and Public Service Reform maintains a positive working relationship with Horsecross through ongoing dialogue to ensure the development and delivery of services. Due to staff absence however, one of the planned quarterly monitoring meetings was not held this year. There is currently no substitute for the Head of Culture and Public Service in this capacity.

Strength of Internal Controls:	Moderately strong
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Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 contains an action that has been identified as a result of a decision made by the Council. This is included here to verify that the action is completed when it becomes due.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Head of Public Service Reform, Head of Property, officers in Legal and Governance Services (CADS) and Finance and Governance (ECS) during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

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Distribution

This draft report has been distributed to:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive, Education & Children's Services, (Equality, Community Planning & Public Service Reform)

F. Robertson, Head of Culture & Public Service Reform

J Symon, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development and

L Simpson, Head of Legal and Governance Services

G Taylor, Head of Democratic Services

P Dickson, Complaints and Governance Officer

External Audit

Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark

Chief Internal Auditor

Date: 11 January 2017

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1.	Key Person Dependency	Medium
2.	Service Level Agreement	Medium
3.	Skills Matrix	Low

Appendix 2: Action Plan

Action Point 1 - Key Person Dependency

There was no quarterly monitoring meeting with Horsecross during the Summer of 2016, as a result of the absence of a key member of staff. The meeting was rescheduled on the officer's return to work but no deputy was nominated to act in the officer's absence. This is indicative of a key person dependency.

Quarterly performance monitoring continued to be received during this period which did not highlight any issues and financial monitoring also continued during this period.

Management Action Plan

The situation will be reviewed to ensure the risk is addressed.

Importance:	Medium
Responsible Officer:	J Fyffe, Senior Depute Chef Executive, Education & Children's Services, (Equality, Community Planning & Public Service Reform)
Lead Service:	Education and Children's Services
Date for Completion (Month / Year):	February 2017
Required Evidence of Completion	Revised Service Level Agreement to describe substitution/contingency arrangements.

Auditor's Comments

Satisfactory

Action Point 2 - Service Level Agreement

The Service Level Agreement with Horsecross will expire at the end of the current financial year. Future Service Level Agreements would benefit from strengthening with reference to:

- The demonstration of the alignment between the Council's strategic objectives for Culture and Sport, and those of the ALEO;
- The ongoing review of performance measures to provide assurance that outcomes are being achieved, including consideration of localities;
- Specific financial monitoring arrangements required by the Council, with respect to timescales and information required;
- Insurance details for cover and excess;
- Quality Assurance and Customer Care systems;

Consideration should also be given to new public reporting arrangements for outcomes against agreed performance measures, in light of the increased scale of cultural services commissioned by the Council.

The Service has advised that this is in progress.

Management Action Plan

Issues to be addressed in SLA for 2017/18

Importance:	Medium
Responsible Officer:	F. Robertson, Head of Culture & Public Service Reform
Lead Service:	Education and Children's Services
Date for Completion (Month / Year):	April 2017
Required Evidence of Completion:	Revised Service Level Agreement

Auditor's Comments

Satisfactory

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Action Point 3 - Skills Matrix

The Articles of Association identifies the setting of a Skills Matrix for guidance in the identification of the necessary skills and experience for recruitment of members to the Board.

Whilst Audit is assured that the current Board represents a wide range of professional experience and knowledge to enable it to carry out its functions, a Skills Matrix would assist in evidencing the systematic evaluation of candidates. The Service advised that this is also currently being progressed by Horsecross.

Management Action Plan

Head of Culture and Public Service Reform will ensure that a skills matrix is put in place by Horsecross.

Importance:	Low
Responsible Officer:	F. Robertson, Head of Culture and Public Service Reform
Lead Service:	Education and Children's Services
Date for Completion (Month / Year):	April 2017
Required Evidence of Completion:	Skills Matrix for current Board identifying current skills/expertise of board members to identify where skills base could be strengthened

Auditor's Comments

Satisfactory

Appendix 3: Action Plan

Action Point 4 - Assistance in Kind

Leases for Perth Concert Hall and Perth Theatre were the subject of a report to Strategic Policy and Resources Committee on 2 December 2015, where the Committee approved waiving the charges for both properties (or £1, if asked). These arrangements commenced from April 2016.

The Following the Public Pound report for 2016/17 has not yet been finalised however the value of the waived charges should be included as Assistance in Kind, in accordance with the Code of Guidance for Funding External Bodies and Following the Public Pound.

Management Action Plan

Lease arrangements to be reflected in Following the Public Pound Annual report.

Importance:	Low
Responsible Officer:	F. Robertson, Head of Culture and Public Service Reform
Lead Service:	Education and Children's Services
Date for Completion (Month / Year):	June 2017
Required Evidence of Completion:	Following the Public Pound Report

Auditor's Comments

Satisfactory