**PERTH & KINROSS COUNCIL**

Internal Audit Report
Corporate
Following the Public Pound
Assignment No.12-02
May 2013

# Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth  PH1 5PH

## Background and Introduction

This assignment forms part of the Internal Audit plan for 2012/2013, as approved by the Audit Sub-Committee on 27th March 2012. Testing took place between October and December 2012.

Following the Public Pound refers to arrangements which ensure proper accountability when funding or other support is provided to arms-length and external organisations (ALEOs) by way (for example) of a grant or under a Service Level Agreement to provide services which would normally be expected to be provided by the Council. The arrangements for procuring such services differ from the normal tendering arrangements.

Each Service has responsibility for the distribution of funds to ALEOs for the provision of statutory services and investing in activities to support the community. This results in the use of the voluntary sector as a means of contributing to the delivery of the Council's key strategic priorities.

The Code of Guidance for Funding External Bodies & Following the Public Pound (the Code) published by the Accounts Commission and Convention of Scottish Local Authorities covers ALEOs which receive grants, financial support or assistance in kind from local authorities. The Code is based on six principle headings: Purpose; Financial Regime; Monitoring; Representation; Limitations and Accountability.

Individual local authorities have established local codes which comply with the national code but are tailored to meet each authority's requirements. The Council developed a Perth & Kinross Code of Guidance for Funding External Bodies and Following the Public Pound (Local Code).

The Local Code was approved in December 2009 by Strategic Policy and Resources Committee (SP&R) which has responsibility under the Council's Scheme of Administration for the implementation of Following the Public Pound. Under the Scheme the Head of Legal Services has delegated authority for the Code. Under the arrangements approved by SP&R together with the Local Code, the Policy and Governance Group (P&G) which is chaired by the Head of Legal Services acts as the project board for Following the Public Pound. The Complaints and Governance Officer has responsibility for supporting the Policy and Governance group and compiles an annual report to SP&R. In addition, arrangements are in place throughout the Council to ensure that funds distributed to ALEOs are appropriately utilised and are subject to appropriate review and reporting arrangements.

The annual report covering 2011/12 was presented to SP&R in April 2013 and the Committee noted funding of £11,515,752 in the year. As some of the issues identified by the audit had an impact on that report, they were raised during the course of the audit with the report's author, the Complaints & Governance Officer.

In order to reach the conclusions in this report the audit included reviews of internal and external reports; interviews with relevant officers in all Services; discussions with the Council's External Auditors (Audit Scotland) and the examination of the Central Register and the Council's general ledger system.

The arrangements within Housing & Community Care for funding approval, monitoring and reporting of ALEOs for Housing and Community Care were the subject of the Internal Audit's work on Commissioning Services – Temporary Accommodation (report 12/273 refers). This report is now part of Internal Audit's follow-up process. As such, testing for the second Control Objective was restricted to Education and Children's Services and the Environment Service.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Complaints and Governance Officer and the Information Security Manager in Legal Services, the Democratic Services Manager and officers in Committee Services and Following the Public Pound group representatives of Education and Children's Services, Housing and Community Care and The Environment Service during this audit.

## 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 describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place.  Areas of good or poor practice are described where appropriate.

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Control Objective 1: The Council has adequate arrangements in place to ensure compliance with the Code of Guidance on Funding External Bodies & Following the Public Pound.

Auditor's Comments:

The Local Code makes clear the responsibilities of the officers and groups with regard to Following the Public Pound in that Executive Directors have responsibility for the clear public accountability of funds used by ALEOs.

The governance framework, approved as part of the arrangements surrounding the revised Local Code, include the following:

- a project board to further develop the activity;

- a compliance officer;

- the presentation of annual reports to SP&R;

- the development of a central register to act as a repository of information across the Council to maintain consistent records of all funding arrangements.

In addition a member officer working group, the Financial Assistance Panel (FAP) whose remit includes responsibility for the monitoring of the implementation of Following the Public Pound was established in 2004 and continues in this role. However, Democratic Services were unable to provide a copy of the complete and current remit of the FAP.

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At the time of testing, the most up to date Local Code was not available to staff through the Council's intranet site, ERIC. The Local Code available on ERIC was approved in 2003 and had been superseded in 2009.

The remit of P&G includes ongoing development and operation of the activity. It is of concern that there was no minuted discussion of the topic by the Project Board between August 2011 and December 2012.

The annual reports to SP&R recommended that the Committee confirm the adequacy of the governance arrangements surrounding Following the Public Pound.  The recommendation is outwith the remit of this Committee.

A number of significant issues were raised by Internal Audit with regard to the content of the annual reports presented to SP&R and the report presented to the Executive Officer Team in November 2012 which may have contributed to a further delay in reporting to SP&R. The details are included within this report.

At the time of testing there were no records held in the central register for 2010/11 or 2011/12.  Officers in Services did not record any of the funding details in the central register, preferring to maintain their own records.  The failure by Services to use the central register was recorded in the minutes of the P&G in August 2011 but no corrective action was taken.

The central register has no capacity to record instances where elected members are appointed to represent the Council.  This function of the register was agreed by the Council as a result of an Audit Scotland review in 2005.

External Audit's right of access to the records of voluntary and charitable organisations is not explicitly stated in the Council's standard Service Level Agreement (SLA).  This right of access is a requirement of The Code.

SLAs did not stipulate the roles and responsibilities of officers who are delegated to provide professional services to external organisations as required by the Local Code.

| Strength of Internal Controls: | Moderately Weak |
|---|---|

Control Objective 2: To ensure that arrangements are in place within Services for monitoring ALEOs to ensure efficient, effective and economic use of Council resources in meeting agreed objectives

Auditor's Comments:

Due to the differences between the frontline Services care should be taken in interpreting the applicability of the findings to individual Services.  In illustration, the proportion of funding in relation to the total reported for 2011/12 is: Education and Children's Services (ECS) 60.2%, Housing and Community Care (HCC) 33.3% and the Environment Service (TES) 6.5%. However, in terms of numbers, ECS funds 32 organisations/projects, HCC funds 65 organisations and TES provides funding

to 165 organisations.

The Local Code provides for consistency in approach across the Council. However, monitoring and reporting arrangements lack consistency and, in some instances, it could be demonstrated that the degree of monitoring and reporting on projects was not proportional to the funding received.

Different processes were in operation within the Council. In some instances, the auditor found applications which had been funded from the Corporate Community/Voluntary Sector budget were explicit in the statement of expectations and demonstrated the fulfilment of those objectives by monitoring reports which were presented to the Financial Assistance Panel.  However, in ECS, targets or outcomes against which achievements could be measured were not always explicitly stated in SLAs; monitoring officers did not provide monitoring reports to senior management or, where required, to Committee. Similarly, files of monitoring records did not all contain records required  by the Local Code including audited annual accounts; records of financial monitoring; business plans; the views of service users or confirmation of the use of a quality assurance methodology in accordance with the risk- based framework of the Code.

The Local Code was followed by TES in respect of seeking funding approval from the relevant Committee. However, approval was not sought by ECS when funding exceeded £50,000, as it had been assumed that this has been part of the budget process.  Similarly, this requirement of the Local Code was not reflected in the Service Guidance for Monitoring Officers.

Standard wording for SLAs expresses the requirement of external organisations to comply with the principles of Best Value but there was little evidence of monitoring on the part of officers to ensure that this had been achieved and it was not a requirement of ECS Service guidance.

| Strength of Internal Controls: | Moderate |
|---|---|

## 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 lists minor points of non-compliance and also an issue which has been raised in a previous Internal Audit report which is pertinent to this review but is the subject of a separate follow up action.  These findings do not form part of the Action Plan as they are considered to be very low risk or would result in duplication. They were drawn to the attention of management during the audit.

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.

## Feedback

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

## Distribution

This report has been issued to:

B Malone, Chief Executive

J Fyffe, Executive Director, Education & Children's Services

D Burke, Executive Director, Housing & Community Care

J Valentine, Executive Director, The Environment Service

I Innes, Head of Legal Services

J Symon, Head of Finance

G. Taylor, Head of Democratic Services

S. Mackenzie, Head of Performance and Resources

D. Henderson, Information Security Manager

C. Flynn, Democratic Services Manager

A. Cook, Contracts, Facilities & Payments Manager

G. Boland, Service Manager (Contracts and Financial Management)

A Clegg, Parks Development Manager

J. McCrone, Conservation and Regeneration Manager

P Dickson, Complaints & Governance Officer

External Audit

## Authorisation

The auditor for this assignment was A Gallacher.  The supervising auditor was D Farquhar.

This report is authorised for issue:


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Jacqueline Clark
Chief Internal Auditor
Date: 22 May 2013

## Appendix 1: Summary of Action Points

| No. | Action Point | Risk/Importance |
|---|---|---|
| 1. | Intranet Access to Current Local Code | Medium |
| 2. | Central Register | Medium |
| 3. | Project Board | Medium |
| 4. | Compliance with the Scheme of Administration | Medium |
| 5. | SLAs - External Audit's Right of Access | Medium |
| 6. | Roles and Responsibilities | Low |
| 7. | Reporting Accuracy | Medium |
| 8. | Non Cash Support | Medium |
| 9. | Reported Improvements to the Code | Low |
| 10. | Delays in Committee Reporting | Low |
| 11. | Governance of FAP | Low |
| 12. | Registration of Interests – Appointments to External Bodies | Low |
| 13. | Reporting by Service | Low |
| 14. | Risks to Service Provision | Low |
| 15. | Funding Approval | Medium |
| 16. | Monitoring Framework for ECS | Medium |
| 17. | Reporting to Service Committee | Medium |
| 18. | Activity Outcomes | Medium |
| 19. | Financial Monitoring | Medium |
| 20. | Responsibility to meet Best Value | Medium |
| 21. | Signed copies of SLAs | Medium |

## Appendix 2: Action Plan

## Action Point 1 - Intranet Access to Current Local Code

At the time of testing, the Local Code was not available to internal users through Eric and links to and searches for the Code provided the user with the 2003 version.

The Auditor first found this on 17 October 2012 and it was brought to the Complaints and Governance Officer's attention on 26th October 2012. This situation was allowed to continue until 17 December 2012.

Moreover, without some form of version control, marking electronic documents clearly when they have been replaced, mistakes of this type could bring about confusion and error.

## Management Action Plan

1.  The version on Eric has been replaced with the current version.

2.  Appropriate version control will be used for any future changes made to the Local Code of Guidance.

| Importance: | Medium |
|---|---|
| Responsible Officer: | P Dickson, Complaints and Governance Officer |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | 1. Completed<br><br>2. March 2014 |
| Required Evidence of Completion: | Published version on Eric |

## Auditor's Comments

Satisfactory

## Action Point 2 - Central Register

A Central Register was established for use by all Services to provide a consistent repository of information relating to all funding to ALEOs. Following a recommendation by Audit Scotland, SP&R agreed to the ongoing maintenance of a Central Register as part of the arrangements for Following the Public Pound in December 2009. The Register provided the information used for the Annual Report for Following the Public Pound for 2009/10. However, Service contacts stated that they did not find the Central Register easy to use, that it did not hold all the information that they themselves wanted and as they were maintaining their own records, they were recording some information twice.

After 2010, Services stopped using the Central Register to record funding awarded and supplied information in spreadsheets to the Complaints and Governance Officer and to IT for uploading to the Central Register in order to facilitate the completion of the annual report. The information was not subsequently uploaded into the Central Register. This situation was not reflected in subsequent Annual Reports.

## Management Action Plan

1. The problems with the functionality of the Central Register will be discussed with Services with a view to achieving an acceptable solution to the various issues raised, including the over-riding need for there to be a working Central Register.

2. The current situation was reflected correctly in the revised Annual Report for 2011/12.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | I Innes, Head of Legal Services |
| Lead Service: | Chief Executive's Service |
| Date for Completion (Month / Year): | 1. March 2014<br><br>2. Completed |
| Required Evidence of Completion: | 1. Functioning Central Register in regular use.<br><br>2.  Annual Report |

## Auditor's Comments

Satisfactory

## Action Point 3 - Project Board

> P&G is the project board for Following the Public Pound as part of the arrangements which were approved by SP&R in 2009. The Group's remit includes responsibility for "the ongoing development and operation of the activity".
>
> Review of the minutes of the group revealed that there has been no minuted discussion or reporting of the topic in meetings between August 2011 and December 2012.
>
> At the meeting in August 2011, the Services' poor use of the central register was highlighted but not subsequently resolved.  In addition, the lack of progress with this issue was not highlighted in the report to EOT in November 2012.

## Management Action Plan

> Following the Public Pound will be a standing item on the agenda of the Policy and Governance Group until the project can be considered complete. The issue of the on-going monitoring of Following the Public Pound will be considered by the Policy and Governance Group.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | I Innes, Head of Legal Services |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | June 2013 |
| Required Evidence of Completion: | Agenda & Minutes of the Policy & Governance Group |

## Auditor's Comments

> Satisfactory

## Action Point 4 - Compliance with the Scheme of Administration

Reports on Following the Public Pound were presented to SP&R in April and September 2011. These recommended that the Committee note the content of the reports and confirm the adequacy of the governance arrangements surrounding Following the Public Pound.

In accordance with the Council's Scheme of Administration, and to maintain separation of roles, whilst SP&R has responsibility for the implementation of the Code, only Scrutiny Committee has responsibility for determining the adequacy of governance arrangements.

## Management Action Plan

The report presented to SP&R in April 2013 was re-worded to ensure that the appropriate recommendations were made for the Committee, bearing in mind its remit in accordance with the Scheme of Administration.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's Service |
| Date for Completion (Month / Year): | Completed |
| Required Evidence of Completion: | Annual Report |

## Auditor's Comments

Satisfactory

## Action Point 5 - SLAs - External Audit's Right of Access

The Code states that "the Council must ensure that its external auditors are given a right of access to such records and if appropriate, accounts and financial arrangements of the external body so that they may follow the trail of public money from the Council through the body."

The Council's standard SLA states only that "the Council's external auditors reserve the right to undertake formal quality and quantity service audits as appropriate". This statement does not provide for an explicit right of access to be afforded to the Council's External Auditors as part of the written agreement with the external organisation.

This point was highlighted as one to be addressed in an Audit Scotland report in 2005. No specific reference was made regarding this requirement in a report to SP&R in 2009 although it was stated that all the recommendations from the Audit Scotland report had been implemented.

## Management Action Plan

The standard SLA will be amended to include an explicit right of access for the Council's External Auditors.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | June 2013 |
| Required Evidence of Completion: | Revised standard SLA |

## Auditor's Comments

Satisfactory

## Action Point 6 - Roles and Responsibilities

The Local Code states that potential for conflicts of interests will be handled through the explicit terms of written agreements with ALEOs, clarifying the roles and responsibilities of officers of the Council who occupy roles on boards or organising committees. However, no such terms describing the roles and responsibilities of such officers were found in the SLAs for organisations where employees of the Council were seen to occupy roles on those boards, (with the exception of voluntary charitable work).  This applies to two SLAs with Perth And Kinross Heritage Trust and Perth and Kinross Countryside Trust.

## Management Action Plan

The Service will undertake to fully identify all roles and associated responsibilities in a review of the two SLAs.

| | |
|---|---|
| Importance: | Low |
| Responsible Officer: | 1.J McCrone, Conservation & Regeneration Manager for Perth and Kinross Heritage Trust<br><br>2. A Clegg, Parks Development Manager for Perth and Kinross Countryside Trust |
| Lead Service: | The Environment Service |
| Date for Completion (Month / Year): | 1) & 2) March 2014 |
| Required Evidence of Completion: | Inclusion of roles and responsibilities in Service Level Agreements |

## Auditor's Comments

Satisfactory

## Action Point 7 - Reporting Accuracy

Errors were noted in the content of the reports presented to Executive Officer Team (EOT) in November 2012 and to SP&R in September 2011, in that the appendices detailing funding amounts did not agree to the amounts quoted in the main text of the report and, where multiple funding streams were provided from different Services or for different projects, the aggregation of funding was not fully declared in the main report.  In some cases this was due to inconsistent naming of organisations, in others, arithmetical error. The difference in the amount reported to the EOT and the corrected amount, which was agreed with the report author, was in excess of £370,000.

Moreover, with reference to the Council's accounting system (Integra), it was found that amounts paid to some organisations were not fully, properly or accurately declared in the reports.

There is no routine checking of the detail of the report to an external source, such as Integra to confirm accuracy and completeness of the reports.

## Management Action Plan

1.  The report was amended to ensure internal integrity before it was presented to the Strategic Policy & Resources Committee in April 2013.

2.  The issue of reference to external sources will be taken into account when the problems with the central register are discussed with Services.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | 1. Completed<br><br>2. September 2013 |
| Required Evidence of Completion: | Annual Report to SP&R |

## Auditor's Comments

Satisfactory

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## Action Point 8 - Non Cash Support

Non Cash Support is described by Audit Scotland as "free or low-cost use of council properties, vehicles and equipment and advice and guidance by council staff." Examples given in their report include discounted school lets and discretionary rates relief.  Both of these forms of support are provided by the Council but neither has been included in the Annual Report on Following the Public Pound since the approval of the Local Code in 2009. Moreover, the reports, which are based on the information received from Services, expressly deny the provision of non-cash support.  Non cash support is provided in the following instances:

1. School lets are provided at a discounted rate in certain cases, including Adult Education Associations and voluntary and charitable organisations. The discount can be up to 81% of the full cost of a let to commercial organisations. Artifax, the room booking system could be re-configured to capture the relevant information thereby identifying which organisations obtain discounts and the value of the discounts awarded, but the system does not currently have this functionality;

2. Discretionary Rates Relief, awarded to voluntary and charitable organisations, is reported separately to SP&R. The value of any new reliefs awarded is quantified but not the total value of all reliefs in place which were awarded in previous years. The Council includes rates relief in its definitions of non cash support; and

3. Administrative and technical support which is provided to, amongst others, Perth & Kinross Heritage Trust and Perth & Kinross Countryside Trust.

The auditor noted that non-cash support is included in reports on Following the Public Pound in some other Scottish local authorities.  Furthermore, the lack of information on non-cash support was included in Audit Scotland's report on the Council in 2005.

## Management Action Plan

1. A request will be made that the room booking system is amended to ensure that it can provide the necessary information for inclusion in the annual report.

2. The total value of Discretionary Rates Relief awarded to organisations in receipt of FPP funding will be reported in the annual report for 2012/13 onwards.

3. Efforts will be made to ensure that any other non-cash support related to FPP funding is properly identified by Services and reported in the annual report for 2012/13 onwards.

| Importance: | Medium |
| --- | --- |

| Responsible Officer: | P Dickson, Complaints & Governance Officer |
|---|---|
| Lead Service: | Chief Executive's Service |
| Date for Completion (Month / Year): | 1. May 2013<br><br>2. September 2013<br><br>3. September 2013 |
| Required Evidence of Completion: | 1. Copy of request<br><br>2. Annual report<br><br>3. Annual report |

Auditor's Comments

| Satisfactory |
|---|

## Action Point 9 - Reported Improvements to the Code

The Annual Report for 2010/11 to SP&R dated 14 September 2011 states that subsequent to the major review undertaken in 2009, "further reviews of the code were carried out in 2010 and 2011 and further improvements were made on both occasions." No minute was made of the reviews in 2010 or 2011 at P&G. No copy was circulated to relevant officers in Services who are involved with Following the Public Pound, nor was a copy available to the auditor during the course of the audit.

## Management Action Plan

Appropriate version control will be implemented for any future changes to the Local Code of Guidance and changes will be authorised and recorded properly.

| | |
|---|---|
| Importance: | Low |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | June 2013 |
| Required Evidence of Completion: | Minutes of Policy and Governance Group |

## Auditor's Comments

Satisfactory

## Action Point 10 -   Delays in Committee Reporting

Since the approval of the revised Local Code, reports pertaining to each of the subsequent years' Funding to External Bodies and Following the Public Pound have been presented to SP&R.  The initial report was presented one full year after the year under review and the following report was within 6 months of the year having been completed.  The report for 2011/12 was presented to the Committee 12 months after the year to which it refers has ended.

Whilst it is accepted that due to Committee cycles and checking of detail there will be some delays in reporting to Committee, as a regular Committee paper the frequency of reporting should be more tightly controlled and closely linked to the year to which it refers.

## Management Action Plan

The annual report will be presented to Committee each year at the first opportunity following the collation of the necessary information. This will normally be the meeting following the summer recess.

| | |
|---|---|
| Importance: | Low |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | September 2013 |
| Required Evidence of Completion: | Annual report |

## Auditor's Comments

Satisfactory

## Action Point 11 -   Governance of FAP

The FAP is a Member Officer Working Group.  As such it has no direct responsibilities under the Scheme of Administration.  It is however, mentioned in the Scheme both in reference to its role in relation to SP&R and its responsibilities in relation to Following the Public Pound, namely making recommendations to the Committee and in working in conjunction with the Executive Director (Environment).  The Scheme of Administration does not mention the Community Challenge Fund as a source of funding for requests as agreed by Council in December 2011.

Through observation and enquiry it was determined that there is no single document detailing the full remit of the Financial Assistance Panel.  At the establishment of the group the approved remit included the development of a strong working relationship with the voluntary sector.  A subsequent amendment to the remit arose in December 2011 when Community Challenge Fund monies (which had been agreed at Environment Committee in September 2011 and approved by full Council) were made available.

## Management Action Plan

The Scheme of Administration will be amended to reflect the Community Environmental Challenge fund in relation to the work of the Financial Assistance Panel.

| | |
|---|---|
| Importance: | Low |
| Responsible Officer: | G Taylor , Head of Democratic Services |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | June 2013 |
| Required Evidence of Completion: |  Revised Scheme of Administration |

## Auditor's Comments

Satisfactory

## Action Point 12 - Registration of Interests – Appointments to External Bodies

The Code states in relation to appointments to external bodies that "the Council must ensure that members and officers are properly advised of their responsibilities to the council and to the company. This should include questions of declarations of interest."

In its current format, the Central Register, does not provide any means for recording the appointment of elected members to ALEOs.

The Local Code states that where the Council is represented on an ALEO this will be covered in a written agreement to ensure that Registers of Interests are maintained. In 13 of 20 instances, the Register of Interests maintained on behalf of Councillors did not reflect appointments to organisations which have been funded by the Council.

## Management Action Plan

1. Services will be reminded that they must ensure that relevant officers' interests are recorded on the Central Register.

2. Elected members will be reminded of the need to register membership of outside bodies including instances where they have been appointed by the Council.

| Importance: | Low |
|---|---|
| Responsible Officer: | 1. P Dickson, Complaints & Governance Officer<br><br>2. C Flynn, Democratic Services Manager |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | 1. May 2013<br><br>2. June 2013 |
| Required Evidence of Completion: | 1. Reminder to Services<br><br>2. Reminder to elected members |

## Auditor's Comments

Satisfactory

## Action Point 13 -   Reporting by Service

Annual reports to SP&R note that under the Local Code each Executive Director is responsible for ensuring that there is clear public accountability for the public funds which are provided from their Service budgets.  In the Appendix to the report, this is shown as a column noting from which Service budget the funding has been received.  The Appendix provides a list of all ALEOs funded in this way for all Services, sorted by reducing amounts but does not show each Service's funded amounts separately to demonstrate accountability.

## Management Action Plan

The Annual Report for 2012/13 onwards will show the details split by Service.

| | |
|---|---|
| Importance: | Low |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's |
| Date for Completion (Month / Year): | September 2013 |
| Required Evidence of Completion: | Annual report |

## Auditor's Comments

Satisfactory

## Action Point 14 -   Risks to Service Provision

The Local Code provides for a regime of funding approval, monitoring and reporting on the basis of financial exposure and therefore financial risk to the Council, comprising four funding levels.  The risks relating to financial exposure are reduced by making smaller payments for Services throughout the year, subsequent to receiving Services.  Other risks e.g. the failure of service provision on the part of the ALEO, are not detailed in the monitoring arrangements in the Local Code.

The four levels, based on financial values, remain at the same levels as those set in the 2003 Code of Guidance and may benefit from review as to their relevance.

## Management Action Plan

The Local Code will be amended to ensure that the agreed payment schedule takes account of any risk to service provision arising from the schedule.

The four funding levels will be reviewed and amended as necessary.

| | |
|---|---|
| Importance: | Low |
| Responsible Officer: | P Dickson, Complaints & Governance Officer |
| Lead Service: | Chief Executive's Service |
| Date for Completion (Month / Year): | June 2013 |
| Required Evidence of Completion: | Amended Local Code of Guidance |

## Auditor's Comments

Satisfactory

## Action Point 15 -   Funding Approval

Examination of the agenda and reports to Lifelong Learning Committee for the calendar years 2011 and 2012 found that ECS did not gain approval from Committee for expenditure in excess of £50,000 for funding voluntary bodies.  This approval is required by the Local Code.

ECS's internal guidelines for monitoring officers state that approval is part of the Budget process.

A similar finding was made regarding H&CC in relation to Temporary Accommodation 2011/12 and was reported at the time of that audit (Report 12/273 refers).

## Management Action Plan

1.   ECS Service Guidance for Monitoring Officers to be updated.

2.    Approval to be requested from Committee for expenditure in excess of £50,000.

| Importance: | Medium |
|---|---|
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Education and Children's Services |
| Date for Completion (Month / Year): | 1. May 2013<br><br>2. April 2014 |
| Required Evidence of Completion: | 1. Revised Guidance for Monitoring Officers<br><br>2. Committee Papers |

## Auditor's Comments

Satisfactory

## Action Point 16 -  Monitoring Framework for ECS

The Audit Scotland Report of December 2005 highlighted that no corporate monitoring process took place within the Council but that such a process was about to be introduced.  Subsequently, this has been in operation in respect of SLAs for HCC (report 12/273 refers).This framework is not, however, used in ECS which has its own guidance, setting out the expectations of the Service to enable officers to monitor the provision of services received under the terms of each SLA.

The ECS guidance is consistent with the Local Code in that it reflects the three funding bands (where funding exceeds £2,000) and requires corresponding levels of oversight and submissions from service providers.  It requires the monitoring officer to develop the SLA in conjunction with the service provider which, it states, should include measurable and achievable targets and outcomes.

The ECS framework differs from the requirements of the Local Code in that it does not include confirmation of the use of a quality assurance framework (for all levels of funding); the provision of a risk assessment framework; inclusion of the views of service users; the provision of financial control procedures and a requirement for business plans to be submitted by the service provider.

## Management Action Plan

The Service will adopt best practice and update ECS guidance.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Education and Children's Services |
| Date for Completion (Month / Year): | May 2013 |
| Required Evidence of Completion: | Revised ECS Monitoring Guidance |

## Auditor's Comments

Satisfactory

## Action Point 17 -  Reporting to Service Committee

The requirement under the Local Code to produce annual monitoring reports to Committee, where funding under Following the Public Pound exceeds £15,000 has not been consistently observed by ECS.

Annual reports were presented to Community Safety and Lifelong Learning Committees by the Youth Justice Partnership noting the achievements of the Strategic Plan, which included the work of organisations funded by ECS.  These, however, did not provide any information linking the degree of Council investment in these strategies to the outcomes they had delivered.

## Management Action Plan

The Service will coordinate reporting requirements and ensure relevant reporting timetables are met including Committee reports in accordance with corporate Guidance.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Education and Children's Services |
| Date for Completion (Month / Year): | May 2013 |
| Required Evidence of Completion: | Annual monitoring reports |

## Auditor's Comments

Satisfactory

## Action Point 18 -  Activity Outcomes

The Local Code states that all SLAs should, as a minimum, include outcomes or targets of the services being provided.

Trusts for which TES has provided finance through SLAs had quantifiable targets (grants issued and Council officers' time) included as part of the agreements. Applications for finance made through Grants Direct and paid from the Corporate Community/Voluntary Sector budget and monitored by the FAP were explicit in the expectations of the outcomes of the funding.

However, for some of the agreements within ECS, the stated targets and outcomes lacked precision and clarity, which would enable performance to be measured more effectively.

## Management Action Plan

There will be a review of all ECS SLAs in place with monitoring officers in order to ensure that all new SLAs for 2014/2015 have measurable and achievable targets and outcomes.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Education and Children's Services |
| Date for Completion (Month / Year): | April 2014 |
| Required Evidence of Completion: | Service Level Agreements for 2014/15 |

## Auditor's Comments

Satisfactory

## Action Point 19 -  Financial Monitoring

Monitoring records for organisations which received funding from ECS did not, in all cases, contain annual audited accounts which should have been held in accordance with the Local Code and the Service's own Guidance for Monitoring Officers.   For some of the organisations which received funding in excess of £50,000 there were no records of financial monitoring by the Service as required by the Code.

The monitoring template used by ECS does not require the monitoring officer to consider any supporting records to assess the financial resilience of the ALEO.

## Management Action Plan

The Guidance for Monitoring Officers will be updated and financial monitoring will be undertaken as appropriate.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Education and Children's Services |
| Date for Completion (Month / Year): | May 2013 |
| Required Evidence of Completion: | Revised ECS Monitoring Guidance |

## Auditor's Comments

Satisfactory

## Action Point 20 -   Responsibility to meet Best Value

The SLA template includes a provision that Service Providers operate in accordance with the Best Value Policies and procedures.

A report to the Enterprise and Infrastructure Committee on Perth & Kinross Heritage Trust in November 2011 (report 11/584) noted that "the provision of services via an SLA with the Trust would still provide value".  However, monitoring records held by ECS did not identify any documentary evidence that the monitoring officers had confirmed that service providers had demonstrated Best Value.  The template used by organisations as part of the annual review process, in conjunction with ECS monitoring officers, does not request any information regarding this requirement.

## Management Action Plan

Guidance will be updated and performance management information will include a requirement to demonstrate how organisations meet Best Value.

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Apr 2014 |
| Date for Completion (Month / Year): | Education and Children's Services |
| Required Evidence of Completion: | Guidance for Monitoring Officers |

## Auditor's Comments

Satisfactory

## Action Point 21 -   Signed copies of SLAs

SLAs held on file, in ECS, for NHS Tayside and Action for Children had not been signed by both parties.

Signed copies of written agreements should be retained as evidence of acceptance of the terms of written agreements.

## Management Action Plan

All future SLAs will be quality assured to ensure they are signed by both parties

| | |
|---|---|
| Importance: | Medium |
| Responsible Officer: | A Cook, Contracts and Facilities Manager |
| Lead Service: | Education and Children's Services |
| Date for Completion (Month / Year): | May 2013 |
| Required Evidence of Completion: | Copies of Signed Service Level Agreements |

## Auditor's Comments

Satisfactory

## Appendix 3: Minor Issues / Issues raised elsewhere

3.1 Chief Executive's Service

The Local Code details different levels of checking, monitoring and funding approval required relative to the financial risk presented with thresholds at £2,000, £15,000 and £50,000. However, due to the wording within the Local Code, it is uncertain as to what the arrangements would be where funding of exactly these amounts are provided, which may give rise to inconsistency of treatment by different Services.

3.2 Education & Children's Services

The wording in the Guidance for Monitoring Officers is inconsistent with the Local Code with regard to Council representation on ALEOs.

3.3 Education and Children's Services and The Environment Service

It is noted that neither ECS nor TES comply with the Local Code requirement to provide 6-monthly monitoring reports to relevant Committees where funding exceeds £50,000. This is consistent with the finding raised in a previous Internal Audit report relating to HCC (report 12/273 refers). As the previously agreed action, which will encompass all Services, already features in the Internal Audit follow-up process a separate action is not required arising from this report. The requirement for such frequent reporting, and its impact on services, is due to be raised by HCC at P&G in June 2013.

## Appendix 4: Summary of Acronyms

| Acronym | Description |
|---------|-------------|
| ALEO | Arms-Length External Organisations |
| The Code | The Code of Guidance for Funding External Bodies & Following the Public Pound. (This report was published by the Accounts Commission and the Convention of Scottish Local Authorities) |
| Local Code | Perth & Kinross Code of Guidance for Funding External Bodies and Following the Public Pound |
| SP&R | Strategic Policy and Resources Committee |
| P&G | Policy & Governance Group |
| SLA | Service Level Agreement |
| ECS | Education & Children's Services |
| HCC | Housing & Community Care |
| TES | The Environment Service |
| Eric | The Council's intranet site |
| EOT | Executive Officer Team |