



Internal Audit Report  
Corporate and Democratic Services  
Corporate Governance – Governance Arrangements for ALEOs and Statutory Bodies  
Assignment No. 15-32  
March 2016

## Final Report

Chief Executive's Service  
Finance Division  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth  
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### 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 organization 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 Audit Standards (PSIAS)

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

### Background and Introduction

This assignment forms part of the Internal Audit plan for 2015/16 and was approved by the Audit Committee on 1 April 2015. The indicative scope was to provide assurance over the adequacy of the systems of Corporate Governance.

The Council’s corporate governance framework is currently being reviewed with the aim of ensuring more efficient and effective processes in support of decision making. The Council’s governance framework must also be able to respond to recent changes/new requirements including:

- oversight of Arms-Length External Organisations (ALEOs) - Live Active Leisure, Horsecross Arts and the new Culture Trust ALEO, Culture Perth and Kinross; and
- governance requirements of the Perth & Kinross Health & Social Care Integrated Joint Board (IJB) which will have formal responsibilities from 1 April 2016.

As such, the scope of the assignment has been refined to provide specific assurance over the arrangements being developed for the management of the Council’s relationship with arms-length external organisations, boards and statutory partnerships.

### Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with relevant staff in Corporate and Democratic Services as well as a range of stakeholders across the Council who have an active role in decision making processes.

### 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: There are clearly defined schemes of delegation and financial regulations which define responsibilities and levels of Council.

### Auditor's Comments:

The Council has a Scheme of Administration which outlines the roles and responsibilities for the Council, Committees and Sub-Committees. The Scheme of Administration is updated to reflect the Council's governance arrangements when required. Whilst amendments have been made to the Scheme during 2015/16, there is no formal requirement for it to be regularly reviewed.

The Council plans to review its political decision making structure in preparation for the local elections in May 2017. This review will seek not only to build on strong points of the existing political decision-making structure but also to be flexible enough to respond to the emerging challenges of the public sector reform agenda. We understand that the proposed timetable will allow management to complete the review, then to present options to the Modernising Governance Member Officer Working Group, with further consideration before a final report is presented to the current Council in April 2017.

The Financial Regulations are subject to biennial review and reported to Council for approval. The current version was approved in October 2014. A review of the Financial Regulations has commenced and the document to be presented for approval in December 2016 will take account of the required governance arrangements for the Council's ALEOs and the IJB.

Strength of Internal Controls:

Moderately Strong

Control Objective 2: Governance groups' terms of reference are subject to regular review to confirm their continuing relevance.

### Auditor's Comments:

The Scheme of Administration is currently being reviewed to ensure that it properly reflects the roles and responsibilities of Council, Committees and where relevant Sub-Committees in respect of its relationships with IJB and its ALEOs.

The IJB has specific responsibilities which are linked to the National Outcomes and are articulated within the Integration Scheme. Similarly, arrangements for the responsibilities for the management of ALEOs are detailed within the SLAs.

The Council's management of the relationship with the ALEOs is defined within the SLAs. There is scope to formalise frameworks for ensuring that the ALEOs deliver the required outcomes on our behalf, in line with their SLAs, and to ensure that these are appropriately reported to the relevant governance group.

Strength of Internal Controls:

Moderately Strong

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Control Objective 3: The governance framework being developed takes account of future requirements and supports effective governance.

### Auditor's Comments:

The Council has a corporate risk strategy to identify, manage and monitor corporate risks. This is one of the key means through which the Council will consider future changes and ensure appropriate action is being taken now in response to these. The Council's corporate risk management arrangements have been subject to a recent internal audit review (Internal Audit Report 15-34) and accordingly, the findings raised in that report are not duplicated within this report. However we can confirm that the findings of both reviews are consistent and support the need for stronger controls in relation to the oversight of corporate risk.

The IJB has been established and from April 2016 will provide integrated health and social care services, which the IJB has overall responsibility for delivering. The relationship between the IJB, the Council and NHS Tayside is governed by the Integration Scheme. The IJB has developed a Risk Management Strategy which includes a risk monitoring framework.

The Council has a complex working relationship with the IJB, which is governed by statute. This includes potentially competing priorities for the role of the IJB's Chief Officer with regard to his responsibility for his role in commissioning these services from the Council on behalf of the IJB and for overseeing their operational delivery. It is therefore important that there is clarity as to roles, responsibilities and lines of accountability to ensure that risks are managed effectively by the relevant parties. A lack of clarity may result in risks not being appropriately identified and mitigated or a duplication of effort (by the Council, IJB and NHS Tayside). As such, there is scope to improve the strategy and framework for the management of risk between the Council and the IJB.

There is further scope to ensure that risk is appropriately managed in relation to the Council's relationship with the ALEOs.

The appointment process of elected members to the external bodies was approved by Elected Members. Appointments will be subject to democratic process and require a Council decision. It is important that a strong balance of individuals with the relevant skills and experience is achieved within the Council's representatives in order that they can exercise effective governance within the respective organisations. Whilst the current appointments process does not require explicit consideration of the skills and experience required or whether an appropriate balance of these has been achieved, there is scope to enhance training and development for newly appointed elected members to ensure that they have the necessary skills to undertake their roles effectively.

The Council has recently developed new assurance frameworks for monitoring arrangements with the IJB and the ALEOs. These frameworks outline future governance and reporting arrangements. There is a consistent approach to monitoring these bodies, helping to make these processes clearer and easier to manage. Each has a flowchart documenting accountabilities and reporting lines.

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The performance of LAL and Horsecross has, and Culture Perth and Kinross will have with effect from April 2016, performance against their outcomes reported to the Lifelong Learning Committee. Horsecross and Live Active Leisure have presented to Scrutiny Committee annually since their status as sole member Trusts came into effect. There is scope to further clarify the reporting lines to Committee for all stakeholders to ensure that there is a clear understanding over the accountability and responsibility for the specific reporting arrangements.

A 'Commissioning Blueprint' has been developed to commission and monitor delivery of services from ALEOs. The framework is based upon outcomes derived from Community and Corporate Plans, which allows the Council to set clear and measurable expectations of external bodies against which their performance can be monitored, reported on and assessed.

Strength of Internal Controls:

Moderate

Control Objective 4: The governance framework in place supports good governance as well as efficient decision making process.

### Auditor's Comments:

The Scheme of Administration and Standing Orders provide a governance framework for the Council. This framework also contains guidance on conduct at meetings and reporting of committees to the Council.

With regard to the IJB, the Chief Officer has a role to report on the delivery and budgetary matters to the Housing and Health and Strategic Policy and Resources Committees respectively. In addition, the Chief Officer will also have a role to report directly to the Scrutiny Committee on behalf of the IJB.

The financial and non-financial performance of Live Active Leisure and Horsecross Arts is monitored by Council officers on a quarterly and monthly basis respectively. Non-financial performance of both Trusts' is reported to the Lifelong Learning Committee within the wider performance arrangements for Education and Children's Services as outlined above. This will also be the case for Culture Perth and Kinross with effect from April 2016. The ALEOs' financial position and performance is not clearly reported to the committee on a regular basis. These reporting arrangements could result in a lack of transparency of the Trusts overall performance. This could result in the Council not being aware of issues concerning the solvency of their operations and impact upon provision of culture and leisure services due to insufficient oversight. There is therefore a need to ensure that a designated officer at a senior level continues to be accountable for the delivery of the management of the SLAs and for their budgetary control, with escalation and reporting lines through the Lifelong Learning and Strategic Policy and Resources Committees respectively. Scrutiny Committee should also receive reports from the ALEO on a frequent basis (six monthly) so as to be able to undertake their role in ensuring best value is achieved in the delivery of these services.

In order to ensure the quality of reporting on performance and risk, there is scope to formalise the arrangements to ensure that they clearly articulate the Council

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officers on whom the responsibilities lie for reporting and escalation where necessary.

The Council is in the process of introducing a new Code of Guidance for Following the Public Pound. A review of existing funding arrangements will be undertaken once the new Code of Guidance has been adopted to ensure they comply with the Code and all relevant statutory requirements.

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.

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 Cultural and Community Services, Democratic Services, and Legal and Governance Services during this audit.

### Feedback

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

## Internal Audit Report

### Distribution

This report has been distributed to:

B Malone, Chief Executive;

J Fyffe, Senior Depute Chief Executive, ECS (Equality, Community Planning and Public Service Reform)

J Walker, Depute Chief Executive for Corporate and Community Development Services

L Simpson, Head of Legal Services

G Taylor, Head of Democratic Services

R Packham, Chief Officer, (Health & Social Care)

F Robertson, Head of Public Service Reform, Culture and Community Development

P Dickson, Complaints & Governance Officer

External Audit

### Authorisation

The auditor for this assignment was G Philp (Scott-Moncrieff). The supervising auditor was E Young (Scott-Moncrieff).

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 31 March 2016

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### Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Formal requirement for the review of Scheme of Administration	Low
2	Reporting of corporate and shared risks for the IJB	Medium
3	Reporting of corporate and shared risks for ALEOs	Medium
4	Appointment to ALEO boards and IJB	Medium
5	Reporting arrangements	Medium
6	Commissioning blueprint	Medium
7	Scrutiny and oversight of ALEOs' performance	Medium



## Appendix 2: Action Plan

### Action Point 1 - Formal requirement for the review of Scheme of Administration

The Scheme of Administration is regularly updated to reflect the Council's governance arrangements as required. These changes are appropriately approved by the Council.

We noted however that there are no formal requirements in place to ensure that the Scheme of Administration is reviewed and updated on a planned basis. There is a risk that the Scheme of Administration will not be updated to reflect current governance arrangements. The Council would benefit from a formal requirement for the annual review of the Scheme of Administration to be introduced.

### Management Action Plan

It is intended that there will be an updated Scheme submitted to the Council meeting in June 2016. Thereafter, an annual review will take place which will support the production of the annual governance statement.

Importance:	Low
Responsible Officer:	G Taylor, Head of Democratic Services
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	June 2016
Required Evidence of Completion:	Updated Scheme of Administration and report to Council

### Auditor's Comments

Satisfactory

## Action Point 2 - Reporting of corporate and shared risks for the IJB

The Council has a complex working relationship with the IJB. Both the IJB and the Council maintain their own separate risk registers. In order to ensure that risks are managed, reported and escalated appropriately, there is a requirement to ensure that there is clarity over where the responsibility lies. This is particularly important where the Chief Officer holds the dual roles of having the role of commissioning services and for operational oversight for the commissioned service.

As a result of the complexity of their relationship, there is a possibility that risks are insufficiently managed or escalated, as the responsibility for the risks may be unclear. In addition, issues within the IJB may create risks that will impact on the Council and vice versa.

The Council would benefit from monitoring risks on the IJB's register to ensure it is working efficiently and cohesively with the IJB. The Council should ensure that there is a process in place to include risks on the IJB's risk register that the Council has joint or partial responsibility for managing. The Council would benefit from having a key officer who is responsible for reporting and escalating any such risks.

### Management Action Plan

The Chief Officer will have responsibility for escalating and reporting risks from the IJB which impact on the Council.

Importance:	Medium
Responsible Officer:	R Packham, Chief Officer (Health & Social Care)
Lead Service:	Health & Social Care
Date for Completion (Month / Year):	July 2016
Required Evidence of Completion:	Formalised arrangements for risk reporting

### Auditor's Comments

Satisfactory

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### Action Point 3 - Reporting of corporate and shared risks for the ALEOs

LAL, Horsecross and the new Culture Perth & Kinross Trust are responsible for maintaining their own risk management arrangements for the delivery of their services. The Council needs to ensure that its risk management arrangements take into consideration the risks associated with managing the relationship with and the delivery of services through these vehicles as part of its contract monitoring process. This includes monitoring and reporting on performance and other (such as financial) risks and for their escalation where necessary.

### Management Action Plan

The Head of Public Service Reform, Culture and Community Development is responsible for escalating and reporting risks from the ALEOs which impact on the Council.

Importance:	Medium
Responsible Officer:	F Robertson, Head of Public Service Reform, Culture and Community Development
Lead Service:	Public Service Reform, Culture and Community Development
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	Formalised arrangements for risk reporting

### Auditor's Comments

Satisfactory

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### Action Point 4 - Appointments to ALEO boards and IJB

Audit Scotland's 'Arm's-length external organisations – are you getting it right?:A follow-up report' and Annual Audit Report 2014/15 identified that there is no evidence that criteria are set for the level of skills and experience required as Council representatives to ensure that the appointment to ALEO boards is transparent.

Management's response was as follows: 'It is the responsibility of the ALEO to complete a skills matrix to ensure their Board contains the appropriate skills. Thereafter it is the responsibility of both the ALEO and the Council to ensure that Members appointed by the Council have the correct skills and training.'

We understand that training is offered to Council members in relation to external appointments and we believe this should be mandatory. This means that where there is a change in appointments, any elected member taking on a new role on an external body, should be given training over their roles and responsibilities for both bodies, particularly concerning conflicts of interest.

### Management Action Plan

Induction training is provided to elected members who are newly appointed to a board to ensure they understand their role and responsibilities to act as a Council representative. This will be included in the induction training for councillors in May 2017 – subject to there being no changes to membership in the meantime.

Importance:	Medium
Responsible Officer:	G Taylor, Head of Democratic Services
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	May 2017
Required Evidence of Completion:	Elected Member Induction Programme

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Satisfactory

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### Action Point 5 - Reporting arrangements

The performance of ALEOs is monitored by council officers on a quarterly and monthly basis for LAL and Horsecross respectively. From April 2016 onwards, such arrangements will also be in place for Culture Perth and Kinross. Reporting on outcomes is reported through the Lifelong Learning Committee. The ALEOs report to Scrutiny Committee on an annual basis. However there is scope to improve the role of the Scrutiny Committee in terms of its oversight with regard to the achievement of Best Value.

The Council should ensure that there is clarity over the nature of issues which will be reported to the overseeing committees (e.g. Scrutiny or Lifelong Learning) and assign responsibility to a single individual to ensure there is minimal duplication, conflicting responses to issues are identified timeously and there are no gaps. This will provide a structure of accountability to ensure that responsibility in respect of issues arising in those bodies is clearly defined.

### Management Action Plan

The Head of Public Service Reform, Culture and Community Development is responsible for receiving performance reporting from the Council's ALEOs. This officer will be responsible for ensuring Committees receive relevant reports and for escalating issues.

Importance:	Medium
Responsible Officer:	F Robertson, Head of Public Service Reform, Culture and Community Development; and
Lead Service:	Public Service Reform, Culture and Community Development
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	Report to relevant Committees

### Auditor's Comments

Satisfactory

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### Action Point 6 - Scrutiny and oversight of ALEOs' performance

The financial position and performance of Live Active Leisure is currently monitored by the Council's officers quarterly and Horsecross is monitored on a monthly basis. Performance of both Trusts is reported to Lifelong Learning Committee within the wider performance arrangements for Education and Children's Services. The Trusts' performances are reported separately from the performance of Education and Children's Services to the Scrutiny Committee as an annual update.

There is scope to improve clarity and appropriateness of reporting to Scrutiny Committee by highlighting Scrutiny Committee's role with regard to ensuring Best Value from the arrangements and for increasing the frequency of such scrutiny, due to the value of services being commissioned in this manner.

### Management Action Plan

The Head of Public Service Reform, Culture and Community Development will ensure that the ALEOs' performance will be reported to Scrutiny Committee at least every six months.

Importance:	Medium
Responsible Officer:	F. Robertson, Head of Public Service Reform, Culture and Community Development
Lead Service:	Public Service Reform, Culture and Community Development
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	Report to Scrutiny Committee

### Auditor's Comments

Satisfactory

## Action Point 7 - Commissioning Blueprint

A 'Commissioning Blueprint' has been developed to commission and deliver services from Trusts. The framework is based upon outcomes derived from Community and Corporate Plans. The framework should be used as the basis for commissioning services through SLAs in the future.

To continue to improve the Council would benefit from being clear as to how these services align with its own strategic objectives and using this to define clear expectations of the ALEOs.

## Management Action Plan

The Head of Public Service Reform, Culture and Community Development will ensure that there is a clear link between the strategic objectives and the Council's expectations of the ALEOs.

Importance:	Medium
Responsible Officer:	F Robertson, Head of Public Service Reform, Culture and Community Development
Lead Service:	Public Service Reform, Culture and Community Development
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	Document

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Satisfactory