



Internal Audit Report
Education & Children's Services
Management of the Relationship with Live Active Leisure
Assignment No.14-13
January 2015

Final Report

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

Background and Introduction

This audit was carried out as part of the audit plan for 2014/15, which was approved by the Audit Committee on 2 April 2014. The purpose of this audit was to provide assurance over the arrangements in place for the management of the relationship with Live Active Leisure (LAL).

LAL is a private limited company, limited by guarantee, and is also registered as a charity. It became a Sole Member organisation in June 2013 when new Articles of Association were adopted. In accordance with the Articles of Association, 3 elected members sit as Council Directors on the Board of LAL, but act in the interests of the Company.

Contracts are in place between the Council and LAL for the provision of Sport & Leisure Services at Investment in Learning Campuses for a 30-year period ending 2039 and to support the Council in carrying out its statutory duty for sport and leisure provision for a 2-year period which ends in April 2015. For 2014/15 the value of these contracts is £4,895,293. In addition to the contracts provided to Education and Children's Services (ECS), there is a contract for services provided to Housing and Community Care (HCC) by LAL of £59,452 per annum was identified.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objective, the audit included interviews with relevant staff in Education & Children's Services, Chief Executive's Service and Housing and Community Care and a review of the requirements of the contracts in place between the Council and LAL.

The audit did not include services provided by the Council to LAL, e.g. IT.

The contracts' monitoring officers and Heads of Legal and Democratic Services were interviewed. Reports from LAL and information regarding the financial arrangements were reviewed.

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.

Control Objective: To ensure the adequacy of arrangements in place to monitor and manage the relationship with Live Active Leisure.
Auditor's Comments: The Council's position, as the sole member of LAL, is reflected in the appointment to the LAL board of 3 elected members. These arrangements were the subject of

an Audit Scotland report during 2014 which considered them to 'demonstrate better practice'. As directors of LAL, the Councillors who sit on the Board act in the best interests of that organisation. The interests of the Council are represented by officers who are responsible for the monitoring of services.

Current service provision for ECS is the subject of two contracts; for Investment In Learning (IIL) schools and the core Contract for sports and recreation provision. A difference between the value of the contracts to ECS and the monthly payment was identified.

The core contract details a contract management framework which requires the monitoring of 39 Performance Indicators (PIs), to be reported quarterly or annually to PKC. Of these only 12 are reported routinely to the Contract Monitoring Officer in accordance with the contract. The management of the relationship however involves attendance at LAL board meetings thereby ensuring robust governance arrangements and reducing the risk to the Council. Additionally, quarterly contract monitoring meetings take place with senior officers of both organisations providing a forum for the discussion of the development of plans and performance monitoring. Senior Service Management also receive annual reports on the performance of LAL in compliance with Contract Rules and the Code of Guidance on Following the Public Pound (FPP).

As the contract was not reported under either FPP or Contract Rules for 2013/14 it was noted that governance arrangements surrounding the public reporting of contracts awarded to sole member organisations, is unclear.

For HCC the contract was found to be commissioned through the Change Fund and is subject to reporting to the Change Fund Project Board.

Strength of Internal Controls:

Moderately strong

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.

Internal Audit Report

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 and Business and Resources Service in ECS and Contracts and Commissioning in HCC during this audit.

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 distributed to:

B Malone, Chief Executive

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

B Atkinson, Depute Director, Education & Children's Services

F Robertson, Head of Cultural and Community Services

I Innes, Head of Legal Services

J Symon, Head of Finance

G. Gilvear, Interim Change Manager;

S. Younie, Service Manager Sport and Active Recreation;

G Taylor, Head of Democratic Services

P Dickson, Complaints & 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: 7 January 2015

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1.	Governance over Public Reporting	Medium
2.	Contract Monitoring	Medium

Appendix 2: Action Plan

Action Point 1 - Governance over Public Reporting

Historically monies paid to LAL were included in the Annual Report on Following the Public Pound (FPP). The Code of Guidance for Funding External Bodies and Following the Public Pound states that it “does not apply when the Council’s financial relationships with the external organisation are on a straightforward contractual basis”. Due to the introduction of contracts for the services rather than Service Level Agreements, payments made to the organisation were specifically excluded from the report presented to Strategic Policy and Resources Committee (SP&R) in October 2014 (14/413 refers). The monitoring of this contract falls therefore under general contract monitoring processes rather than the FPP regime.

The Council’s Contract Rules require that Executive Directors submit a report to the relevant Committee or Sub-Committee detailing all tenders accepted by the Service in the preceding 6 months. However, as LAL is a sole member organisation, there is no requirement to procure services from them through a tendering process.

Consequently, there is no requirement for public reporting of the monies paid to LAL under current Council governance arrangements.

Management Action Plan

The fact that there is no requirement for public reporting of the monies paid to LAL under current Council governance arrangements will be resolved as part of the revised FPP procedure.

Importance:	Medium
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive’s
Date for Completion (Month / Year):	June 2015
Required Evidence of Completion:	Copy of revised FPP procedure

Auditor’s Comments

Satisfactory

Action Point 2 - Contract Monitoring

Of the 39 performance indicators which are detailed in the core contract, only 12 are routinely provided by LAL. All other PI information is, however, available on request. PIs which are contractually required but not received routinely include cost and subsidy per user, reports on customer surveys, and a breakdown of concessionary users.

It is noted that the Contract Monitoring Officer attends LAL Board meetings and is in receipt of reports detailing the operation of the services which are not required by the contract. The contract is due for revision for the new financial year and work is to be undertaken to ensure that a relevant, measurable and achievable reporting regime is in place.

Management Action Plan

A new contract is being drawn up for 2015/16 which will ensure that all the current performance indicators are reviewed and that a clear distinction is made between information that is core and material to contract performance which should continue to be presented regularly and other secondary indicators where the information must be collated by Live Active Leisure and available to PKC as required.

Importance:	Medium
Responsible Officer:	G. Gilvear, Interim Change Manager
Lead Service:	Education and Children's Services
Date for Completion (Month / Year):	April 2015
Required Evidence of Completion:	Revised Contract with measurable indicators and compliance regime

Auditor's Comments

Satisfactory