

# Internal Audit Report



Internal Audit Report  
Corporate & Democratic Service  
ALEOs - Horsecross  
Assignment No. 19-12  
March 2020

## Final Report

(Report No. 20/164)

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

### 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)

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 2019/20, which was approved by the Audit Committee on 26<sup>th</sup> June 2019. Audit testing was carried out between December 2019 and March 2020.

Arms-length external organisations (ALEOs) deliver services on behalf of the Council. There are three which Perth & Kinross rely on to undertake this function: Horsecross Arts; Live Active Leisure; and Culture Perth & Kinross.

### Outcomes

Following increased concerns about governance and financial management in Horsecross Arts the Council instigated further additional scrutiny of Horsecross in early 2019. The interim Chief Executive appointed by Horsecross left in June 2019.

In July 2019 Horsecross reported serious financial difficulties to the Council and a cashflow crisis which required emergency financial assistance from the Council to enable Horsecross to continue trading. This assistance had special funding conditions attached, including quarterly reporting to Scrutiny Committee from July 2019 and the establishment of a Joint Advisory Group (JAG) to support Horsecross in making improvements to governance, financial management and sustainability, operational effectiveness and artistic programming.

In August 2019 the Council put an interim leadership team into Horsecross to provide stability for staff and to oversee immediate required improvements as identified by the JAG. This leadership team identified a number of concerns about financial and management controls. The Council therefore sought the assistance of Audit Glasgow in ascertaining the extent of some issues and the ensuing report, attached at Appendix 1, was published in December 2019. The majority of Horsecross Board members resigned their roles at this time.

The Council has appointed three Councillors to serve as Horsecross Trustees and independent members of the Board are being recruited.

The Audit Glasgow report has highlighted areas where significant improvements to financial controls and governance are required. All are categorised as high priority. The report also highlights other areas arising from Audit Glasgow’s work which would benefit from review at the earliest opportunity. The Chief Executive of Horsecross, who has been in post since December, has been tasked with implementing the recommendations within the report as a matter of urgency. This will be a funding condition from the Council in 2020/21, included in the Service Level Agreement This will be reported to, and monitored by, the Horsecross Board. A briefing session for senior Horsecross Arts staff on required improvements was held on 14 February 2020.

## Internal Audit Report

Internal Audit will review the Action Plan and ensure that the actions effectively mitigate the risks that are highlighted in Audit Glasgow report. The Service Monitoring Officer will monitor implementation progress during 2020/21. SLA payments may be withheld if progress is unsatisfactory. Internal Audit will provide assurance over these as part of the 2020/21 Internal Audit planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of members of the JAG, particularly the Head of Culture & Community Services and her team.

### Feedback

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

### Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

K Donaldson, Depute Director – Corporate & Democratic Services

F Robertson, Head of Culture & Community Services

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

Committee Services

External Audit

### Authorisation

The auditor for this assignment was J Clark.

This report is authorised for issue:

---

J Clark  
Chief Internal Auditor  
Date: 10 March 2020