



Internal Audit Report
Communities
19-12 ALEOs - Horsecross
November 2021

Final Report

Legal & Governance Services
Corporate & Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
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19-12 ALEOs Horsecross

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1. Introduction

- 1.1 This audit was carried out as part of the audit plan for 2020/21, approved by the Audit Committee on 26th September 2020. Testing was undertaken prior and up to March 2021 and the findings have been reviewed in respect of updated evidence provided in Autumn 2021.
- 1.2 Horsecross Arts Ltd is a registered charity and operates as an arms-length external organisation (ALEO) delivering services operating arts facilities in Perth city on behalf of the Council.
- 1.3 This review focuses on evidence for improvement to areas highlighted in the Audit Glasgow report and general oversight of Horsecross throughout 2020-21 and to date. Restrictions on Horsecross, the Council and stakeholders during the Covid19 emergency are taken into account. Reference was made to Audit Scotland's guidance on ALEOs 'Are you getting it right? [ALEOs]¹ and to Service Level Agreement clauses on responsibilities of the Council and Horsecross, performance monitoring and reporting. The Council is ultimately accountable for how public money is spent, including its services commissioned through ALEOs.

2. Audit Background Information

- 2.1 In 2019, following concerns about governance and financial management in Horsecross Arts Ltd [referred to as Horsecross], the Council set up an interim leadership team in the absence of a Chief Executive and a Joint Advisory Group to support Horsecross to make improvements, provide stability for staff and to oversee immediate required improvements. These interim arrangements were a requirement of the emergency financial assistance from the Council requested by Horsecross in July 2019. The Council leadership team identified significant concerns about financial and management control areas. The Council therefore commissioned external auditors, Audit Glasgow, to identify the extent of issues and their report was published in December 2019. The Audit Glasgow financial management [report](#) described absence of controls and recommended urgent action for key elements of the internal control environment to operate effectively. The new Chief Executive of Horsecross was subsequently tasked with implementing recommendations within the report as a matter of urgency and this was a funding condition within the 2020/21 Service Level Agreement.

3. Scope and Limitations

- 3.1 The scope of this review is restricted to examining progress in implementing improvement areas highlighted by Audit Glasgow in December 2019. Twelve areas were identified for immediate action, of which 5 were of high importance and 7 of medium importance. A further six other areas were highlighted as benefiting from review at the earliest opportunity.

- 3.2 Evidence has been provided via the Council's ALEO Contract Monitoring Officer, including regular communication with the Board. It is noted that delays in implementation of these actions, partially as a result of the impact of the COVID-19 pandemic, were experienced.

4. Assessment of the Control Environment

- 4.1 The table below details the control objectives agreed for audit testing. The number of improvement actions per each rating (as detailed in section 12 below) is detailed, along with Internal Audit's assessment of the adequacy and effectiveness of the controls in place. Further details, including any improvement actions, are set out in the Management Action Plan.

No.	Control Objective	Action Rating (see 12 below)					Control Objective Assessment
		5	4	3	2	1	
1	Horsecross is following up high-level actions as described in the Glasgow Audit review as a matter of urgency, with progress of these reported to the Board and the Council. Five of the twelve actions were rated as High priority.		1	1			Reasonable
2	Horsecross is following up medium-level actions described in the Glasgow Audit review as a matter of urgency, with progress / completion of these reported to the Board and the Council. Seven of the twelve actions were rated as Medium priority.				1		Substantial
3	Horsecross Arts Ltd is following up the six other key areas identified for in-depth assurance reviews by the Glasgow Audit review, with progress / completion of these reported to the Board and the Council.			1			Reasonable

- 4.2 The auditor has assessed that reasonable assurance can be placed on arrangements for the implementation of actions arising from the Audit Glasgow report. Meaning:
There is a generally sound system of governance, risk management and control in place.

5. Summary of Findings

- 5.1 Horsecross acknowledges that the implementation of improvements as highlighted in the Glasgow Audit report have taken longer to progress than anticipated. This has been in part due to the COVID-19 pandemic, which led to the temporary cessation of business activity.

- 5.2 The Horsecross Board receives regular updates regarding progress with the implementation of actions arising from the findings of the Glasgow Audit report, with many of the identified policies being updated and approved by the Finance & General Purposes Committee in August 2021.
- 5.3 Horsecross have reported to the Board in September 2021 that all actions have been fully completed. Internal Audit can confirm that action has been taken to address all 12 findings as detailed in the Glasgow Audit action plan. The following paragraphs contain some further details and improvements.
- 5.4 A budgetary framework and reporting is now in place, along with a revised Scheme of Delegation.
- 5.5 Access to the ledger has been fully reviewed and updated to ensure that only those officers who require access have this. However there remains scope to improve access controls by making full use of the secure access controls available through the system.

Action Points 1

- 5.6 Improved processes were found to be in place for the management of the payroll system and its verification.
- 5.7 The staff structure examined revealed 3 freelance staff reporting directly to the Chief Executive who were not on the payroll, which may be contrary to IR35 rules. This is an area which may require further on-going review as the venues continue towards full re-opening.

Action Point 2

- 5.8 A revised Time Off in Lieu policy has been approved.
- 5.9 A remuneration committee was established in February 2021, with a remit to include review and agreement of standard contract details and to develop the company's remuneration philosophy.
- 5.10 A policy for complimentary tickets was approved in August 2021. This will be rolled out fully once the venues have been fully re-opened.

Action Point 3

- 5.11 There were 6 areas where Glasgow Audit considered further review should be undertaken, but which were outside Glasgow Audit's scope. These were: cash security & imprest management; governance arrangements; gifts, hospitality and declarations of interest; IT general controls and cyber security; HR management; and Board effectiveness and organisational culture.
- 5.12 Evidence has been provided of some consideration of governance arrangements, including revision of policies relating to areas highlighted for future review, as were highlighted within the Action Plan. Evidence has also been provided of Horsecross management and Board consideration of HR management issues and organisational culture. However full reviews of the areas have not been undertaken.

- 5.13 Where new arrangements have been put in place recently, it would be appropriate for reviews to be undertaken once these arrangements are embedded and the review would highlight the adequacy and effectiveness of arrangements in place. This would cover areas relating to governance arrangements; gifts, hospitality and declarations of interest; HR management and Board effectiveness and organisational culture
- 5.14 Some of the areas would benefit from review once the venues have been opened consistently for a short while so that working arrangements can be reviewed for the adequacy of internal controls (e.g. cash security & imprest management).
- 5.15 The final area, IT general controls and cyber security, should be prioritised for review due to increased general cyber risks, particularly in light of the finding from our review of the Action Plan and documented at Action Point 1 in this report.
- 5.16 In order to ensure that the additional areas highlighted for review by Glasgow Audit are given proper scrutiny at Board level, a cycle of these reviews should be considered for the provision of assurances over these areas.

Action Point 4

6. Conclusion

- 6.1 The Internal Audit review is able to place reasonable reliance on the overall control environment for implementing the agreed actions arising from the Audit Glasgow report. The agreed actions, once fully implemented, should enable Internal Audit to place substantial assurance on these arrangements.

7. Acknowledgements

- 7.1 Internal Audit would like to thank Karen Johnston, ALEO Contract Monitoring Officer, and all officers who were involved in this audit.

8. Action Implementation and Follow up

- 8.1 Responsibility for the maintenance of adequate and effective controls rests with management. Where the audit has identified areas for management action, these are identified in the Management Action Plan. Where a decision is taken by management not to act in response to finding from this review, it is the responsibility of management to assess and accept the risk arising from non-implementation.
- 8.2 Achievement of the agreed actions is monitored through Internal Audit's 'follow up' arrangements.

9. Management Action Plan

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
1	5.5	Access to the ledger has been fully reviewed and updated to ensure that only those officers who require access have this. However there remains scope to improve access controls by making full use of the secure access controls available through the system	High	The ALEO Contract Monitoring Officer will seek assurance that Horsecross are making full use of secure access controls.	K Johnston, ALEO Contract Monitoring Officer	January 2022
2	5.7	The staff structure examined revealed 3 freelance staff reporting directly to the Chief Executive who were not on the payroll, which may be contrary to IR35 rules. This is an area which may require further on-going review as the venues continue towards full re-opening	Medium	The ALEO Contract Monitoring Officer will ensure that this is considered as part of a year end review	K Johnston, ALEO Contract Monitoring Officer	April 2022
3	5.10	A policy for complimentary tickets was approved in August 2021. This will be rolled out fully once the venues have been fully re-opened	Low	Horsecross will be requested to provide evidence of full implementation after a year of the policy having been approved.	K Johnston, ALEO Contract Monitoring Officer	September 2022

4	5.16	There were 6 areas, based on their observations during the review, where Glasgow Audit considered further review should be undertaken, but which were outside Glasgow Audit's scope. In order to ensure that these additional areas are given proper scrutiny at Board level, a cycle of these reviews should be considered for the provision of assurance over these areas.	Medium	The Head of Culture and Community Services will ensure that Horsecross consider these areas as part of a cycle of business, with the expectation that outcomes will be reported to the Horsecross Board	F Robertson, Head of Culture and Community Services	March 2022
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10. Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was J Clark. This report is authorised for issue:

11. Distribution

This report has been distributed to:

T Glen, Chief Executive
B Renton, Executive Director, Communities
S Devlin, Executive Director, Education & Children's Services
K Donaldson, Chief Operating Officer
F Robertson, Head of Culture and Community Services
K Johnston, ALEO Contract Monitoring Officer
L Simpson, Head of Legal & Governance
Committee Services
External Audit

12. Assessment Definitions

The following table contains the definitions of the control objective assessment.

Control Objective Assessment	
Level of assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

Risk Rating for Individual Findings		
Rating	Rating description	Definition
5	Critical	Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register <i>Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives</i>
4	High	Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register <i>Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives</i>
3	Medium	Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers <i>Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives</i>
2	Low	Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of Senior Management <i>Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives</i>
1	Trivial / Minor	Very minor observations which will be raised during the course of the audit and may not be included within the final report <i>Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the course of the audit and may not be included within the final report.</i>