

The Highland Council

Finance, Housing and Resources – 26 February 2014

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| Agenda Item | 28 |
| Report No | FHR/50/14 |

Internal Audit Report – Governance of Arm's Length External Organisations

Report by Depute Chief Executive

Summary

This Report records the findings of the audit review to identify the governance arrangements in place in relation to 'Arm's Length External Organisations' (ALEOs) and to report on how well they comply with the Audit Scotland report, 'Arm's Length External Organisations' (ALEOs): are you getting it right?' The review resulted in nine recommendations being made, six at high priority and three at medium priority grade.

1. Background

- 1.1 It is a requirement for audit reports to be considered by the Committee responsible after they have been considered by the Audit and Scrutiny Committee.

2. Audit Findings

- 2.1 The audit findings are set out in the attached Appendix and, as reported to Audit and Scrutiny Committee, provide reasonable assurance regarding the governance of arm's length external organisations. The Action Plan was agreed at the November meeting of the Audit and Scrutiny Committee.
- 2.2 The audit confirmed that the Council's larger arm's length external organisations (High Life Highland, Eden Court Highlands and Caledonia Community Leisure Limited) had well developed governance arrangements in place and largely complied with the good practice guidance referred to in the Audit Scotland report. There is scope, however, to improve the Council's oversight of those organisations, particularly those established a number of years previously, in order to ensure compliance.
- 2.3 One action of note was the need to comply with the best practice identified by Audit Scotland in regard to the appointment of Council members to external organisations. It is recommended that, in future, the requirements of each organisation should be established at the outset and the main criteria used for appointment should be the skill set, expertise and qualifications which an appointee could be expected to bring to the organisation. The Director of Education, Culture and Sport has agreed a revised target date of 30/6/14 with the Head of Internal Audit and Risk Management for the finalisation of Service Delivery Contracts with Caledonian Community Leisure and Eden Court Highlands (paragraphs 3.2.3 and 3.2.4)

3. Implications

- 3.1 There are no resource, legal, equalities, climate change/Carbon Clever or risk implications to be highlighted.

Recommendation

Members are invited to consider these audit findings and to agree the Action Plan approved by the Audit and Scrutiny Committee meeting subject to the revised target date for completion of actions 3.2.3 and 3.2.4.

Designation: Depute Chief Executive

Date: 10 February 2014

Author: Stewart Fraser

Background Papers:

AUDIT REPORT SUMMARY

Report Title

Chief Executive's Service - Corporate Governance Arrangements 2012-13

Report No.

HA49/005.bf

Type of Audit

Systems

Issue Date

Draft Report

11/09/13

Final Report

07/11/13

1. Introduction

- 1.1 This audit was undertaken as part of the annual plan for 2012/13 and reviewed the Council's corporate governance arrangements for 2012/13.
- 1.2 In accordance with best practice, the Local Code of Corporate Governance (the Code) is updated annually and presented to the Highland Council. The Code details the actions that need to be completed in order to further improve the Corporate Governance arrangements in the Council, and also the actions completed during the previous year.
- 1.3 Agreement of the 2012/13 Code by Council would normally have taken place in June but the local government elections delayed this until 6th September 2012.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 The Council has adequate Corporate Governance arrangements in place. In particular:
 - There is an appropriate framework in place which complies with best practice set out in the CIPFA/ SOLACE guidance;
 - Actions required to demonstrate and/ or improve governance arrangements are clearly identified together with the responsible officers and target dates. These are set out in the annual Local Code of Corporate Governance;
 - Any actions not completed by the end of the year are identified.
- 2.2 The agreed actions arising from the previous audit report on Corporate Governance (HA49/004) issued on 27th August 2012 were satisfactorily actioned by management.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was partially achieved as the Council's Corporate Governance arrangements are in accordance with the requirements of the CIPFA/ SOLACE guidance. In addition, the council uses the Quarterly Performance Reviews (QPR) process to monitor the progress in actioning actions. However, it was not possible to evidence that all actions recorded within the 2011/12 Local Code had been completed or if not, were carried forward into the 2012/13 action plan. The only supporting documentation was archived information in the Performance and Risk Management System (PRMS) which was incomplete as no updates were provided by TEC Services and the Planning & Development Service.
- 3.2 This objective was not achieved as implementation of the agreed actions has been mixed but the failure of some Services to address these means that none of the three actions have been satisfactorily addressed:
 - All off-target actions should be carried forward and clearly shown within the next year's Code. 8 of 12 sampled actions shown as incomplete for 2011/12 were not clearly carried forward to the next year.
 - Whilst the standard template of information for PRMS has been provided and disseminated to Services as agreed, this has not been adhered to by some Services using PRMS. However this system was only implemented in all Services from January 2013.

- A review of the content of the 2012/13 quarter 3 QPRs was carried out by the Chief Executive's Service in order to provide assurance that corporate reporting requirements were being met and that the guidance on preparing electronic reports was being followed and the results were reported to the Weekly Business Meeting on the 29th July 2013. In addition, all Service Directors were previously provided with detailed feedback by email in early April which included a table comparing Services' QPR content with corporate guidance and identification of issues and improvements in order to meet the corporate guidance.
- The reporting of Internal Audit reports to the respective Strategic Committees is inconsistent. In addition, these were not always recorded on PRMS and/ or updated in a timely manner which means that the Service QPR information can be incomplete and/ or inaccurate. The Corporate Performance Team has completed work with Internal Audit to refine the approach to monitoring Internal Audit reports.

4. Conclusion

- 4.1 A number of the issues reported at 3. above relate to the fact that full implementation of PRMS was only concluded in January 2013. Use of the system by all Services in accordance with the guidance issued by the Chief Executive's Service will enable a final position on progress with the Code's actions to be extracted and verified as part of the audit process. The system includes a standard template for Service QPRs which incorporates all required information including actions from the Code and Internal and External audit reports, and if utilised will ensure that progress in achieving these actions is reported upon and monitored.
- 4.2 There are 4 recommendations made as a result of this audit all medium grade. These are due to be implemented by 31/12/13.

5. Audit Opinion

- 5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

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The Action Plan contains **9** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Priority

Number

High

6

Medium

3

Low

0

Total recommendations

0

| REPORT REF. | GRADE | FINDING | RECOMMENDATION | MANAGEMENT AGREED ACTION | IMPLEMENTATION | |
|-------------|-------|--|--|--|-------------------------------------|-------------|
| | | | | | RESPONSIBLE OFFICER | TARGET DATE |
| 3.1.1 | High | The Council does not maintain a central register of all organisations that fall within the definition of being ALEOs | <p>A central register of ALEOs should be developed and maintained. The information on each organisation in such a register should include the following:</p> <ul style="list-style-type: none"> • Name of the organisation • Relationship to the Council • Members appointed • Amount of funding including any in kind assistance • Any other partners • Name of Liaison Officer in the Council • Name/contact details of Company Secretary <p>Additionally, the following documents should be held on file for each company:</p> <ul style="list-style-type: none"> • Memorandum and Articles • Service Level Agreement (SLA) or Service Delivery Contract (SDC) • Property lease information (if applicable) | Create Central Register to comply with recommendation of Internal Audit. | Head of Legal & Democratic Services | 30/04/14 |

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| | | | | | RESPONSIBLE OFFICER | TARGET DATE |
| | | | <ul style="list-style-type: none"> Risk Register Current list of Directors and Management Team. | | | |
| 3.1.2 | Medium | Training for Members appointed to external organisations is provided but the uptake is poor | The importance of initial and refresher training for Members should continue to be emphasised and Members actively encouraged to attend in order that they appreciate the importance of their role as a Council appointed Trustee or Director. | Board Development Days completed for CCLL, HLH, Eden Court & HOL in August & October 2013. | Head of Legal & Democratic Services | Complete |
| 3.2.1 | Medium | Beinn Tharsuin Wind Farm Community Ltd was set up by the then Area Manager to manage income received from the operators of the windfarm. All financial transactions are managed by Council staff using Council systems. The rationale behind this arrangement and the set-up of the company could not be established. | Consideration should be given to the reasons for the Council's continuing input to this company with a view to investigating the possibility of transferring it to the Community and thus effecting a saving of Council resources. | Company Secretary to consult the developer and the Company Board of Directors regarding the transfer of the Company to community control. | Corporate Manager | 30/04/14 to complete investigation |
| 3.2.2 | High | The role of the Leisure & Learning Client Manager in relation to High Life Highland is not operating effectively | (1) Annual financial statements for HLH should be provided to the Culture & Leisure Contracts Scrutiny Sub-Committee. | Financial statements will be provided to C&L Contracts Scrutiny Sub-Committee on an annual basis. | CLL Client Manager | When audited financial statements are available |
| | | | (2) The role of the Leisure & Learning Client Manager needs to operate more effectively and this needs to be addressed by the following | The L&L Client Manager post is currently under review in order to determine the | Director of ECS | 31/03/14 |

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| | | | | | RESPONSIBLE OFFICER | TARGET DATE |
| | | | actions: <ul style="list-style-type: none"> • Documentation of the duties of the Client Manager • The provision of appropriate training for the Client Manager • Attendance at HLH Board meetings • Reviewing performance and financial information provided by HLH and addressing any issues as these arise. | appropriate capacity to discharge responsibilities associated with the post, including the future relationships with Arms-Length Organisations. | | |
| 3.2.3 | High | There has been limited financial and performance information reported to the Council by Caledonia Community Leisure Ltd. The role of the Leisure & Learning Client Manager) in relation to Caledonia Community Leisure Ltd is not operating effectively | (1) The draft SDC should be finalised, approved and issued to CCLL at the earliest opportunity. It should incorporate detailed performance and financial information. | The SDC will be finalised, approved and issued at the earliest opportunity. | CLL Client Manager | 31/03/14 |
| | | | (2) The information submitted in accordance with the SDC should be forwarded to the appropriate Service Finance Manager for analysis. A summary of this information should then be reported to the Culture & Leisure Contract Scrutiny Sub-Committee. | Agreed | CLL Client Manager | As and when the SDC information is available |
| | | | (3) CCLL's annual Financial Statements should be reported to an appropriate Committee of the Council. | Agreed | Director of ECS | When audited financial statement |

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| | | | <p>(4) The role of the Leisure & Learning Client Manager needs to operate more effectively and this needs to be addressed by the following actions:</p> <ul style="list-style-type: none"> • Documentation of the duties of the Client Manager • The provision of appropriate training for the Client Manager • Attendance at CCLL Board meetings • Reviewing performance and financial information provided by CCLL and addressing any issues as these arise. | The L&L Client Manager post is currently under review in order to determine the appropriate capacity to discharge responsibilities associated with the post, including the future relationships with Arms-Length Organisations. | Director of ECS | <p>s are available</p> <p>31/03/14</p> |
| 3.2.4 | High | <p>There is no reporting to a Council Committee on the financial or governance issues of Eden Court.</p> <p>No financial or governance information is published and available to the public.</p> <p>The Learning and Leisure Client Officer is the Liaison officer within Highland Council but it is not clear that his remit includes Eden Court.</p> | (1) Company information (similar to that which is available for HLH) should be published on the Eden Court Website. This would allow interested parties to access performance, financial and governance information on the organisation. This is considered appropriate where an organisation is receiving substantial public funding that | Discuss with Eden Court the appropriate level of financial disclosure and governance information which could be made available. | Director of ECS | <p>31/03/14</p> <p>31/03/14</p> |

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| | | | | | RESPONSIBLE OFFICER | TARGET DATE |
| | | | <p>enables it to remain a going concern.</p> <p>(2) The draft SDC should be finalised, approved and issued to CCLL at the earliest opportunity. It should incorporate detailed performance and financial information.</p> <p>(3) The information submitted in accordance with the draft SDC should be forwarded to the appropriate Finance Manager for analysis. A summary of this information should then be reported to the Culture & Leisure Contract Scrutiny Sub-Committee.</p> <p>(4) Eden Court Theatre annual Financial Statements should be reported to an appropriate Committee.</p> <p>(5) The role of the Leisure & Learning Client Manager needs to be clarified and operate effectively. This should be addressed by the following actions:</p> <ul style="list-style-type: none"> Documentation of the duties of the Client Manager The provision of appropriate training for the Client Manager | <p>The SDC will be finalised, approved and issued at the earliest opportunity.</p> <p>Agreed</p> <p>Agreed</p> <p>The L&L Client Manager post is currently under review in order to determine the appropriate capacity to discharge responsibilities associated with the post, including the future relationships with Arms-Length Organisations.</p> | <p>CLL Client Manager</p> <p>CLL Client Manager</p> <p>Director of ECS</p> <p>Director of ECS</p> | <p>As and when the SDC information is available</p> <p>When audited financial statements are available</p> <p>31/03/14</p> |

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| | | | | | RESPONSIBLE OFFICER | TARGET DATE |
| | | | <ul style="list-style-type: none"> Attendance at Eden Court Board meetings Reviewing performance and financial information provided by Eden Court and addressing any issues as these arise. | | | |
| 3.2.5 | High | The Board of Directors of HOL is made up 9 Directors, all of whom are Council Members. Unlike HLH and CCLL, there are no independent Directors. It is, therefore, important that the Members appointed have the necessary skills to perform their roles effectively | When appointing Council Members to external organisations, the main criteria should be the skill set, expertise and qualifications that each appointee brings to the Board of the Company thereby complying with best practice as identified by Audit Scotland. | Agree Criteria to be used when making appointments to HOL Board. | Head of Legal & Democratic Services | April 2014 |
| 3.2.6 | High | Caithness Horizons receives direct funding of £104,561 and rent free accommodation worth £61,000. No Memorandum & Articles or Liaison Council Officer could be identified. The funding is to continue for another 5 years and a robust reporting procedure implemented. At the time of the review it was agreed that ECS would take responsibility for the organisation. | <p>(1) A copy of the Memorandum and Articles for the Organisation and all other documentation should be requested and retained as noted at section 3.1.1.</p> <p>(2) A copy of the reporting requirement with a specific timeframe should be developed and implemented at the earliest opportunity.</p> <p>(3) Future funding of the organisation should be considered and discussed with the organisation in advance of the current end date in order that steps can be taken to decrease its dependency on public sector funding.</p> | <p>A copy has been obtained and is available.</p> <p>The appropriate reporting framework will be incorporated in the SDC.</p> <p>Discussions on future funding will be progressed over the next 15 month period</p> | <p>Completed</p> <p>CLL Client Manager</p> <p>Director of ECS</p> | <p></p> <p>31/03/14</p> <p>31/03/15</p> |

Report Title

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HC52/001

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| | | | | | RESPONSIBLE OFFICER | TARGET DATE |
| | | board of any of the ALEOs Council Members can be appointed to the Boards of external organisations centrally by Council/ Committee or locally at Area Committee Meetings. There is no comprehensive list of all organisations to which Council Members are appointed. Member's profiles on the Council website may not accurately reflect their responsibilities in relation to external organisations. Training needs may not be identified. | (2) Appointments to external organisations made at Area Committee Meetings should be notified directly to the Service with responsibility for the organisation. Prior to any appointments being made, it should be considered whether there is need for any Council representation. (3) A comprehensive list of all external organisations with Council representation on their Board should be compiled and maintained centrally. (4) Members should be reminded to ensure that their profiles on the Council's website accurately reflect their responsibilities in relation to external organisations. | Procedure to be agreed. See 3.1.1 Letter sent to all Members every 6 months to remind them to update their register. | Corporate Manager/Senior Ward Managers Head of Legal & Democratic Services | 30/04/14 Complete |