

Argyll and Bute Council
Internal Audit Report
August 2018
Final

LiveArgyll Governance

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	0	0	3

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of LiveArgyll's system of internal control and governance.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with LiveArgyll officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate officers to confirm factual accuracy and we would like to record our appreciation for the cooperation and assistance we received from all officers over the course of the audit.

Background

4. In November 2016, Argyll and Bute Council (the Council) took the decision to transfer culture and leisure services to a charitable trust. They considered the transfer of these services as an opportunity to provide a new, fresh, efficient and commercially focused approach to delivering services across Argyll and Bute. LiveArgyll was launched in October 2017 and is responsible for services including libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets.
5. LiveArgyll is set up as a company limited by guarantee and is a wholly owned subsidiary of the Council. Following due diligence the Office of the Scottish Charity Regulator (OSCR) granted LiveArgyll charitable status (Charity Number SC047545). To facilitate the operation of LiveArgyll, the following documentation has been prepared:
 - Lease Agreement – establishes ownership of the building assets retained by the Council and leased to LiveArgyll.
 - Support Services Agreement - LiveArgyll access a range of support and administration services provided by the Council with the terms established by a range of service level agreements (SLAs).
 - Services Agreement – establishes the management agreement between LiveArgyll and the Council including the service specifications to be delivered by LiveArgyll.
6. The 2018/19 expenditure budget for Live Argyll is approximately £6m of which £3.57m is provided by the Council as a management fee.

Scope

7. The scope of the audit was to ensure that LiveArgyll either has, or has made, good progress toward having effective governance arrangements to enable them to manage their affairs appropriately. The audit took cognisance of the fact that LiveArgyll is in its first year of operation meaning there may be areas still in development rather than fully established. It considered governance across a wide range of areas including strategic and business planning, performance reporting, risk management, financial management and leadership.

Audit Opinion

8. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion are provided in Appendix 2 to this report.
9. Our overall audit opinion for this audit is that we can take a **substantial** level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Key Findings

10. We have highlighted three low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - future meetings between LiveArgyll and the Council should be scheduled and formally recorded
 - periodic review of the performance of the Chair and Live Argyll Board (the Board) members should be introduced
 - board meeting agendas, reports and minutes should be made available to the public on the LiveArgyll website.
11. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

12. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	There is an appropriate governance framework in place to allow effective management and decision making.	High	LiveArgyll has appropriate and comprehensive governance documents in place which enable effective management and decision making. The provision of services to LiveArgyll by the Council is formally established with regular engagement between the two bodies to discuss pertinent issues. The recording of this engagement could be strengthened.
2	There are appropriate arrangements in place to promote and support effective strategic leadership by the board and sub committees.	Substantial	The roles and responsibilities of the Board are clearly documented with the suitability of potential members assessed prior to appointment. Member development could be strengthened by the periodic review of member performance. Board meeting agendas, reports and minutes are not currently made available on the LiveArgyll website.
3	There are business plans in place which	Substantial	LiveArgyll has an overarching and comprehensive business plan covering 2017-2021. It was approved in

	Control Objective	Assessment	Summary Conclusion
	are aligned to strategic priorities and performance management arrangements.		January 2018 and provides a clear strategic direction of travel. In addition there are two sub business plans, one for Leisure and Sport and one for Libraries, Archives and Museums.
4	There are effective performance management and reporting arrangements.	Substantial	LiveArgyll has a Business and Performance subcommittee whose remit includes considering performance and making recommendations to the Board. A suite of performance indicators for internal performance reporting and reporting to the Council has been developed, was reported to the Board in July 2018 and will be reported to the Council shortly thereafter.
5	There are appropriate arrangements in place to ensure effective financial management and financial reporting.	Substantial	There are comprehensive financial and security regulations providing clarity over financial roles and responsibilities and budget monitoring. A budget monitoring report for quarter one of 2018 was presented to the Finance and Audit subcommittee and compared income and expenditure actuals against budget with variance explanations provided.
6	Risk management arrangements are effective and applied consistently.	High	A comprehensive risk management policy has been agreed by the Board and there is a risk register with associated mitigation actions against each risk. Risks are periodically reviewed by the Board.

13. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is an appropriate governance framework in place to allow effective management and decision making

14. LiveArgyll has developed a range of key governance documents to support effective management and decision making. This includes articles of association, financial and security regulations, scheme of delegation, standing orders, a service agreement with the Council and a support services agreement outlining the services provided by the Council to LiveArgyll. Our review of these documents found them to be comprehensive.
15. All charities registered in Scotland must adhere to the regulations detailed within the Charities and Trustees Investment (Scotland) Act 2005. The Office of Scottish Charities Regulator (OSCR) provides guidance for charities in relation to “what they must do or not do”. Where appropriate we reviewed LiveArgyll’s governance arrangements against the OSCR guidance.
16. LiveArgyll, as a registered charitable company limited by guarantee, is governed by its Articles of Association. The OSCR guidance outlines the expected content of Articles of Association including:
- what the Charity exists to do
 - the powers it has to further its charitable purpose
 - how many charitable trustees there should be and how they are appointed and removed

- rules about member meetings, how they are arranged and conducted and how decisions are made and recorded
 - how to change the governing document
 - how to close the Charity down.
17. The Articles of Association comply with the requirements as detailed in the OSCR guidance, the standing orders provide appropriate governance over board meetings, committees and general meetings and the scheme of delegation outlines the roles and responsibilities of senior management.
18. OSCR guidance stipulates that a conflict of interest statement for board members should be prepared and cover the following:
- what the charity should do if a conflict arises
 - give examples of scenarios where a conflict of interest may arise
 - what action the charity should undertake if a conflict arises
 - have in place a register of interests
 - include a conflict of interest agenda item for all board meetings.
19. LiveArgyll, through their Code of Conduct for Directors, and documented arrangements for directors to record financial and non-financial interests, have fully addressed the requirements set out in the OSCR guidance.
20. Included within the support services agreement between LiveArgyll and the Council are monitoring arrangements to ensure the Council are providing the agreed services. Whilst we could confirm that the LiveArgyll General Manager has been corresponding regularly with a representative of the Council (often by e-mail) the first formally recorded meeting to discuss issues such as business plan reporting, performance reporting and the net cash position was not carried out until February 2018.

Action Plan 1

21. In compliance with the Companies Act 2006, all board members are registered with Companies House.
- There are appropriate arrangements in place to promote and support effective strategic leadership by the Board and sub committees**
22. In February 2017 the Council advertised for independent trustees/directors for the Board. LiveArgyll prepared a list of assessment criteria for each prospective board member and candidates were assessed against this criteria. Three independent board members were selected by a panel of senior councillors in April 2017 and three Council members were agreed by Council in May 2017. In line with best practice a trade union representative was nominated by Joint Trade Unions in June 2017. The name, work experience and background of each board member is available on the LiveArgyll website.
23. The roles and responsibilities of board members are established in the standing orders and financial and security regulations. There is a clear Code of Conduct for Directors which establishes what is expected from directors to maintain the highest standards of integrity and stewardship, to ensure LiveArgyll is effective and ensure there is a good working relationship with the LiveArgyll senior management team.

24. LiveArgyll board members do not receive remuneration but are reimbursed for any expenses incurred through carrying out their duties as board members.
25. A paper taken to the Board in May 2018 refers to board members enquiring about the provision of training to assist them in fulfilling their role. The paper details a proposal to have board effectiveness sessions at the end of each board meeting with the first session to be held in July 2018 on 'An overview of the functions carried out by LiveArgyll on behalf of Argyll and Bute Council'. Consultation has taken place with the Board to determine appropriate topics to be delivered at future board meetings.
26. In addition to the Board, LiveArgyll have a Finance and Audit subcommittee and a Business and Performance subcommittee. Both subcommittees have a Board approved remit which sets out their roles and responsibilities. The Code of Conduct for Directors places a requirement on directors to attend a minimum of 66% of meetings '*to ensure that best practice in governance is reached and maintained.*'
27. Based on attendance at board meetings since LiveArgyll went live in October 2017 there are two members who will not be able to meet the minimum requirement for the first annual programme of meetings. LiveArgyll do not currently have arrangements to periodically review the performance of the Chair of the Board or board members. This is considered to be appropriate given LiveArgyll has been operational for less than one year. Periodic review of the performance of the Chair and all board members is considered good practice and consideration should be given to introducing this at an appropriate time.

Action Plan 2

28. Board meeting agendas, reports and minutes are not currently made available on the LiveArgyll website however management have advised that consideration is currently being given to making these documents available in the future. Hard copies are made available at the LiveArgyll headquarters.

Action Plan 3

There are business plans in place which are aligned to strategic priorities and performance management arrangements

29. There is an overarching business plan covering the period 2017-2021 which was approved by the Board in January 2018. The plan is clearly aligned to LiveArgyll's strategic priorities and provides a 'golden thread' between the priorities, desired outcomes and how LiveArgyll will measure outcomes. The plan was found to be comprehensive and included areas such as:
 - strategic priorities and desired outcomes
 - performance management
 - operations and performance monitoring
 - financial overview including financial projections up until 2020/2021
 - a summary of the Board structure and management team
 - marketing
 - risk management.
30. Included within the business plan is a commitment to "*have sector business plans which outline priorities and associated proposals for change. We also have our individual business unit plans*

which will translate these priorities and proposals into specific actions and measures. It is these three tiers which will form the foundation of our performance monitoring and management process.”

- 31.** There are two sub business plans, one for Leisure and Sport and one for Libraries, Archives and Museums. These plans were found to comprehensive providing strategic direction and operational requirements for the period 2017/18 to 2020/21. The plans refer to developing individual unit business plans between February 2018 and April 2018 however the completion of these unit plans has been delayed. LiveArgyll are currently implementing a number of program developments including pricing reviews and staffing efficiency reviews. These require completion prior to developing individual unit business plans. As such the delay in completing the individual unit plans has not been raised as an audit issue. We would encourage LiveArgyll to reconsider the value in drafting unit plans once these developments are complete. The existing overarching business plan and sub business plans are sufficient, at the current time, to ensure LiveArgyll is operating with appropriate strategic direction.
- 32.** The overarching business plan states that LiveArgyll *“will in the first few months after transfer develop a marketing strategy aimed at getting a better understanding of our customer and local residents”*. This has been delayed till October 2018 due to a decision not to recruit a marketing manager and other projects being prioritised including the procurement of an external marketing company and the creation of a social media policy.

There are effective performance management and reporting arrangements

- 33.** A Business and Performance subcommittee has been established whose remit includes considering performance, reviewing the company key performance indicators (KPIs) and making recommendations to the Board.
- 34.** The support services agreement confirms that LiveArgyll will provide the Council with a report on operational performance within two calendar months of the end of the second and fourth quarter of each financial year.
- 35.** A suite of KPIs has been developed with these to be reported to the Board bi-annually. The first report was presented to the Board in July 2018 and will be presented to the Council in November 2018. These reports will also be presented to the finance and audit subcommittee. LiveArgyll are also in the process of developing a dashboard of performance information for both the Board and Business and Performance subcommittee. In addition templates have been developed for individual units that will record facility usage, sickness data and facility downtime.

There are appropriate arrangements in place to ensure effective financial management and financial reporting

- 36.** There are comprehensive financial and security regulations which detail roles and responsibilities in relation to financial matters, budget monitoring & control and virement between cost centres.
- 37.** Revenue budget monitoring guidance provides support for budget holders and details roles and responsibilities, types of budget monitoring reports and a budget monitoring timetable for the financial period 2018/19.
- 38.** The Council provides LiveArgyll with monthly financial monitoring reports that compare actual expenditure against budget for all LiveArgyll cost centres. The report breaks down expenditure

against budgeted accounts such as employee costs, premises cost and third party payments. These are reviewed by LiveArgyll officers and, where appropriate explanations are provided for identified variances.

Risk management arrangements are effective and applied consistently

39. There is a comprehensive risk management policy which was agreed by the Board in May 2018. The policy covers areas such as risk identification, mitigation and control.
40. A risk register has been created which documents identified risks with associated risk mitigation. In May 2018 the Board reviewed the risk register and agreed to review it on a bi-annual basis going forward.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p>Recording of LiveArgyll/Council Meetings</p> <p>LiveArgyll are in regular correspondence with a representative of the Council (often by e-mail) to discuss performance and service issues however the first formally recorded meeting was not carried out until February 2018. Going forward regular meetings should be scheduled and minuted.</p>	Issues regarding performance and service delivery may not be addressed transparently and in a timely manner.	Several meetings have taken place, evidence provided for February and May meetings. In addition there is regular interaction between representatives of both organisations. Electronic records via (email) are an appropriate recording mechanisms as issues are dealt with on a “live” basis. Formal scheduled meetings also take place and minutes will be available.	General Manager Complete
Low	2	<p>Review of Board Member Performance</p> <p>LiveArgyll do not currently have arrangements to periodically review the performance of the Chair of the Board and board members. Periodic review of the performance the Chair and all board members is considered good practice and consideration should be given to introducing this at an appropriate time.</p>	Failure to periodically review board members performance may lead to ineffective decision making.	Arrangements are in place. Performance is reviewed on an on-going basis. Numerous policies are in place including Board Attendance and Conduct policies are in place. Directors are also sighted on their roles and responsibilities via Companies House requirements. In addition effectiveness sessions are in place aimed at	General Manager July 2019

				developing and enhancing existing board skills and expertise. Board members were provided with an example of a self-assessment check-list for information and discussion. We will implement a similar self-Assessment scheme once agreement with Board members has been reached.	
Low	3	<p>Public Availability of Board Papers</p> <p>Consideration should be given to making board meeting agendas, reports and minutes available to the public via the LiveArgyll website.</p>	Lack of transparency in the use of public funds and decision making.	Board Papers are available in hard copy. At its recent July meeting the Board agreed to the publishing of Agenda, Minutes and unrestricted reports on Website	<p>September 2018</p> <p>Business Support Manager</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.