

Argyll and Bute Council
Internal Audit Report
January 2019
Final

Performance Management

Audit Opinion: **High**

	High	Medium	Low
Number of Findings	0	0	2

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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 Argyll and Bute Council's (the Council) system of internal control and governance in relation to Performance Management.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Part 1 of the Local Government in Scotland Act 2003 (the Act) places councils under a duty to make arrangements that secure Best Value. Section 1 of the Act defines Best Value as "continuous improvement in the performance of the authority's function".
5. Effective performance reporting ensures that elected members and senior management have the information that allows them to effectively scrutinize the Council's performance against agreed key priorities and objectives. Fundamental to this is the Council's Performance Improvement Framework (PIF) which sets out its approach to performance monitoring and which all Council departments must work within.

Scope

6. The scope of the audit was to assess the adequacy of, and compliance with, the Council's performance management arrangements as outlined in the PIF.

Risks

7. The risks considered throughout the audit were:
 - **Audit Risk 1:** The Council does not have an effective PIF
 - **Audit Risk 2:** The Council's Corporate Plan and service plans and business outcomes are not linked to agreed priorities and objectives
 - **Audit Risk 3:** Performance targets are not regularly monitored and reviewed
 - **Audit Risk 4:** Roles and responsibilities are not clear
 - **Audit Risk 5:** Performance reporting is not carried in line with PIF

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 is provided in Appendix 2 to this report.

9. Our overall audit opinion for this audit is that we can take a high level of assurance. This means that 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.

Key Findings

10. We have highlighted two low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- the PIF should be updated to provide guidance on the annual quality assurance process applied to the revision of service plans and performance targets
 - consideration should be given to amending performance reports to include a 'dashboard' summary of service performance.
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	Link to Risk	Assessment	Summary Conclusion
1	The PIF clearly establishes the Council's planning performance and improvement functions.	Audit Risk 1 Audit Risk 4	High	The PIF has been approved by full Council and clearly establishes the Council's approach to performance management. Governance arrangements and roles and responsibilities are clearly defined and appropriate user guidance is provided as PIF appendices.
2	Business outcomes and performance monitoring are clearly linked to agreed corporate priorities and 2019-2022 service plans	Audit Risk 1 Audit Risk 2 Audit Risk 5	High	A revised set of 17 business outcomes have agreed by the Strategic Management Team (SMT) with draft 2019-2022 service plans reflecting the new suite of outcomes. The business outcomes have been linked to corporate priorities and work is underway to map the new business outcomes to performance monitoring reports within Pyramid.
3	Appropriate performance targets are agreed annually, communicated and periodically reviewed.	Audit Risk 1 Audit Risk 3	Substantial	Service plans, including targets, are reviewed annually in line with the Council's budget setting process. Service plan reviews are subject to a quality assurance process however there is no guidance to support this process incorporated in the PIF.

4	Performance is regularly monitored and reported.	Audit Risk 3 Audit Risk 5	Substantial	Performance reports are presented to the appropriate council committees on a quarterly and annual basis in line with the PIF. Consideration should be given to amending performance reports to include a 'dashboard' summary of service performance.
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13. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

The PIF clearly establishes the Council's planning performance and improvement functions

14. The PIF clearly sets out the Council's approach to performance management in order to deliver its statutory duty to make arrangements to secure Best Value as required by the Act. It was approved by full Council on 20 April 2017. Subsequently changes have been made to the guideline information included as appendices to the PIF however these do not require approval by any Council committee.
15. The PIF sets out the appropriate governance arrangements for performance management including roles and responsibilities and the timetable for reporting performance to the various council committees and meetings. This includes setting out the role of elected members in monitoring performance and their role in driving change within the Council.
16. Appendices to the PIF provide comprehensive user guidance on areas such as:
 - planning and performance reporting cycles
 - pyramid and scorecards
 - service planning
 - service annual performance reviews
 - benchmarking
 - public performance reporting.

Business outcomes and performance monitoring are clearly linked to agreed corporate priorities and 2019-2022 service plans

17. A revised set of 17 business outcomes (reduced from 32) for the Council were approved by the SMT in October 2018. These have been used in the preparation of the 2019-2022 service plans which are currently in draft form but have been reviewed by the SMT in October 2018 and the Policy and Resources Committee in December 2018.
18. The business outcomes have been mapped to the Corporate Plan 2018/22, the Argyll and Bute Outcome Improvement Plan (ABOIP) 2013-2023 and to the Council's administrative priorities. Each business outcome is supported by a range of success measures.
19. A review of performance monitoring reports within Pyramid confirmed that performance scorecards currently reflect the previous 32 business outcomes. The new business outcomes will be built in Pyramid during FQ1 2019/20 ready for populating after FQ1. As this is work in progress no issue has been raised in this report.

Appropriate performance targets are agreed annually, communicated and periodically reviewed

20. As budget changes can have an impact on performance targets, service plans, including targets, are reviewed annually in conjunction with the Council's budget setting process.
21. Revisions to service plans and performance targets are subject to a quality assurance check by the Performance and Improvement Officer (PIO). The PIO can recommend that the Head of Service (HoS) consider changes to targets or success measures however the final decision lies with the HoS. The PIF doesn't provide guidance or a procedure note to support this process or the respective roles and responsibilities though it was noted that the email sent to each HoS in July 2018 to begin the service planning process stipulates the quality assurance role of Human Resources and Organisational Development.

Action Plan 1

22. Performance data in Pyramid is generally complete and updated in a timely manner which helps facilitate effective monitoring. Performance targets have been set and, where appropriate, benchmarking has been included. A new quarterly report for extracting the information from Pyramid has been developed and is used by the Chief Executive and executive directors into inform quarterly performance meetings.

Performance is regularly monitored and reported

23. Performance reports are presented to the appropriate council and area committees on a quarterly and annual basis. Furthermore the Council performance report and scorecard is also submitted to the Audit and Scrutiny Committee (A&SC) on a 6-monthly basis.
24. The PIO has been engaging with members of area committees and the A&SC regarding the content and format of performance reports. Each area committee report includes an invite to elected members to engage with the PIO or named officers to discuss performance queries or improvements. A development session has been arranged with the A&SC in March 2019 to discuss the layout of the performance report template.
25. Training has arranged by the PIO to help elected members with Pyramid and performance monitoring. The first session was carried out on 13 February 2019.
26. The PIF provides guidance on the preparation of performance reports. The performance reports issued in Q2, 2018 confirmed this guidance is being followed appropriately.
27. All success measures where a red issue was flagged within Pyramid in the Council scorecard section were checked to ensure a suitable explanation was provided. Of the 20 success measures where a red issue was identified, 17 had a suitable explanation, 2 did not fully explain the reason and 1 had no explanation given. The issue with no explanation related to corporate complaints performance. A detailed report on this issue is regularly presented to SMT and the appropriate strategic committees.
28. We reviewed the area committee reports presented in December 2018 and confirmed there were appropriate explanations provided for all 17 red issues highlighted.
29. The inclusion of a summary section within performance reports which details the total number of success measures for each service with the corresponding number of red, amber and green

performance outcomes would provide management and elected members with a “dashboard” summary of how well the department is performing.

Action Plan 2

30. At the end of the financial year each HoS, following guidance in the PIF, produces an Annual Performance Review (APR) which highlights key successes, challenges and improvement actions. These are subject to a quality review by the PIO prior to final publication. The 2017/18 APRs were agreed by the Policy and Resources Committee in August 2018 and are available on the Council website. A review of the APRs confirmed that they are compliant with the PIF guidelines.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	Update PIF to Provide Guidance on Quality Assurance Check Revisions to service plans and performance targets are subject to a quality assurance check by an appropriate officer who may recommend changes to the relevant Head of Service. The PIF doesn't provide guidance or a procedure note to support this process or the respective roles and responsibilities.	The quality assurance process may not be applied consistently	Develop procedure note for service planning QA to include: (i) HROD advise on success measures, targets and timelines (ii) Service Plans are written in plain English (iii) Service Plans are consistent taking into account variations between Services. (iv) HROD advice is included in DMT/SMT reporting on service plans.	Performance and Improvement Officer 31 August 2019
Low	2	Performance Summary Performance reports did not include a summary section for each service that details the total number of success measures with the corresponding number of red, amber and green performance outcomes. This would provide management and elected members with a "dashboard" summary of how well the department is performing.	Management and elected members may not be able to gauge overall performance.	Include a summary of RAG status within the performance report or Scorecard. Work with Directorate Support Officers to (i) Amend the quarterly performance report template in light of outputs from Members seminar on 19 March 2019	Performance and Improvement Officer 31 August 2019

				(ii) Review quarterly and 6-monthly performance templates with a view to incorporating RAG status dashboard.	
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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.