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**Report to Resources & Audit Committee**

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**Date of Meeting: 25 September 2014**

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**Subject: External Auditor Targeted Follow-up  
Arms Length External Organisations: Are you getting it right?**

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**Report by: Head of Strategy & Customer Services**

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**1.0 Purpose**

- 1.1. The purpose of this report is to provide Committee with our External Auditor's assessment of Clackmannanshire's use of Arms Length External Organisations (ALEOs), and on progress since the "How Councils Work" report on ALEO's was published by the Accounts Commission in 2011. The assessment is attached at Appendix 1.

**2.0 Recommendations**

- 2.1. It is recommended that Committee notes:
- 2.1.1. the report, commenting and challenging as appropriate; and
- 2.1.2. that a follow-up report will be brought back to Committee in September 2015 providing an update on progress.

**3.0 Considerations**

- 3.1. The Accounts Commission report "Arms Length External Organisations: Are you getting it right?" has been selected for targeted follow-up in 2013/14 across all 32 local authorities. The Accounts Commission report has been reported previously to Committee. The External Audit report is included at Appendix 1.
- 3.2. The Auditor notes that "While Clackmannanshire Council has not set up any organisations to specifically provide Council services, there are organisations which the Council has an interest in and Elected Members have been nominated in either a decision-making or observational capacity. The principles of openness, integrity and accountability, therefore, equally apply."
- 3.3. The External Auditor has made four recommendations. These recommendations have been accepted by management and are summarised, together with management's response in Appendix 2.

- 3.4. The assessment notes the work undertaken by the Council in developing a Code of Practice for ALEOs, and the work more generally to strengthen our approaches and governance in this area of work. Though significant progress has been made, key areas for improvement remain, particularly concerning consistency of standards associated with the development and monitoring of Service Level Agreements.
- 3.5. The Head of Strategy & Customer Services will oversee implementation of these recommendations, which will be tracked in the future on the Covalent performance management system. A follow-up report will be brought to the Resources & Audit Committee in September 2015.

#### **4.0 Sustainability Implications**

- 4.1. There are no direct sustainability implications arising from this report.

#### **5.0 Resource Implications**

- 5.1. *Financial Details - there are no direct budgetary implications arising from this report.*
- 5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes ☒
- 5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☒
- 5.4. *Staffing*

#### **6.0 Exempt Reports**

- 6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☒

#### **7.0 Declarations**

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box ☒)

- |  |                          |
|--|--------------------------|
| The area has a positive image and attracts people and businesses         | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive                          | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer  | <input type="checkbox"/> |
| Vulnerable people and families are supported                             | <input type="checkbox"/> |
| Substance misuse and its effects are reduced                             | <input type="checkbox"/> |
| Health is improving and health inequalities are reducing                 | <input type="checkbox"/> |

The environment is protected and enhanced for all ☐

The Council is effective, efficient and recognised for excellence ☒

(2) **Council Policies** (Please detail)

**8.0 Equalities Impact**

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☐ No ☒ n/a

**9.0 Legality**

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☒

**10.0 Appendices**

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1 - Deloitte Report to Resources & Audit Committee, *Arms Length External Organisations: Are you getting it right?*

*Appendix 2: Arms Length External Organisations Management Action Plan*

**11.0 Background Papers**

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☐ (please list the documents below) No ☒

**Author(s)**

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**Approved by**

NAME	DESIGNATION	SIGNATURE
Stuart Crickmar	Head of Strategy & Customer Services	Signed: S Crickmar
Nikki Bridle	Deputy Chief Executive	Signed: N Bridle



Arm's-length external organisations: Are  
you getting it right? – Targeted follow-up  
*Report to the Resources and Audit  
Committee*



20 June 2014

# Contents

1. Executive summary and action plan

2. Introduction

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*This document sets out our assessment on Clackmannanshire Council’s use of Arm’s-length external organisations (ALEOs) and on progress since the “How Councils Work” report on ALEOs was published in 2011.*

*It has been discussed with management and is presented to the Resources and Audit Committee for discussion*

# Executive summary and action plan





# Executive summary and action plan

## Quantitative data

Whilst Clackmannanshire Council has not directly set up any ALEOs to provide Council Services, there are organisations which the Council has an interest in and Elected Members have been nominated to and are involved with these bodies. The principles of openness, integrity and accountability, therefore, equally apply.

There is clear disclosure within the Group accounts of Council associates and Joint Ventures. There is currently no disclosure in the financial statements around the voluntary organisations which the Council provides funding to. A number of other Councils currently include this disclosure. We recommend that this disclosure is incorporated into the financial statements moving forward.

## Governance arrangements

The Council and Resources & Audit Committee have both received a copy of the Councils ALEOs Code of Practice which directly refers to the Commission's How Councils Work report on ALEOs.

In Spring 2013 the Council conducted a comprehensive independent review of all funded voluntary organisations. This resulted in individual bodies being graded and the nature of involvement moving forward being formally considered by the Elected Members. We recommend that the list of bodies is formally considered annually moving forward to allow Elected Members the opportunity to consider their continued involvement.

Council involvement in outside bodies is monitored through the register of interests, but there is currently no formal register which highlights the scope of Council involvement in each body. We recommend that the Council creates a formal register of Council Involvement by body to enhance the processes allowing members to better understand the risks they are exposed to through outside bodies.

Elected Members' roles and responsibilities are defined in the standard ALEOs Code of Practice, however, it is up to the individual member to check compliance throughout their term of involvement with the body. Additional training has been provided to members. We recommend that the Council consider on an annual basis whether additional training is necessary.



# Introduction



# Introduction

## Aims and objectives

Audit Scotland's Corporate Plan 2012-15 reinforced its commitment to monitoring the impact of its work. The impact of national performance audits is followed up in a number of ways, including auditors undertaking targeted follow-up work in Councils. The Accounts Commission report "*Arms Length External Organisations: Are you getting it right?*" has been selected for targeted follow-up in 2013/14 across all 32 local authorities.

### Aims of follow-up

1. To allow Audit Scotland to provide the Accounts Commission with a position statement on councils' use of ALEOs and, in particular, on progress since the "How Councils Work" report on ALEOs was published in 2011.
2. To inform the Commission's consideration of ALEOs in the context of the public audit model.

### Key Issues

How many ALEOs does the Council have?

What services are delivered by the organisation?

What governance arrangements does the council have for overseeing ALEOs?

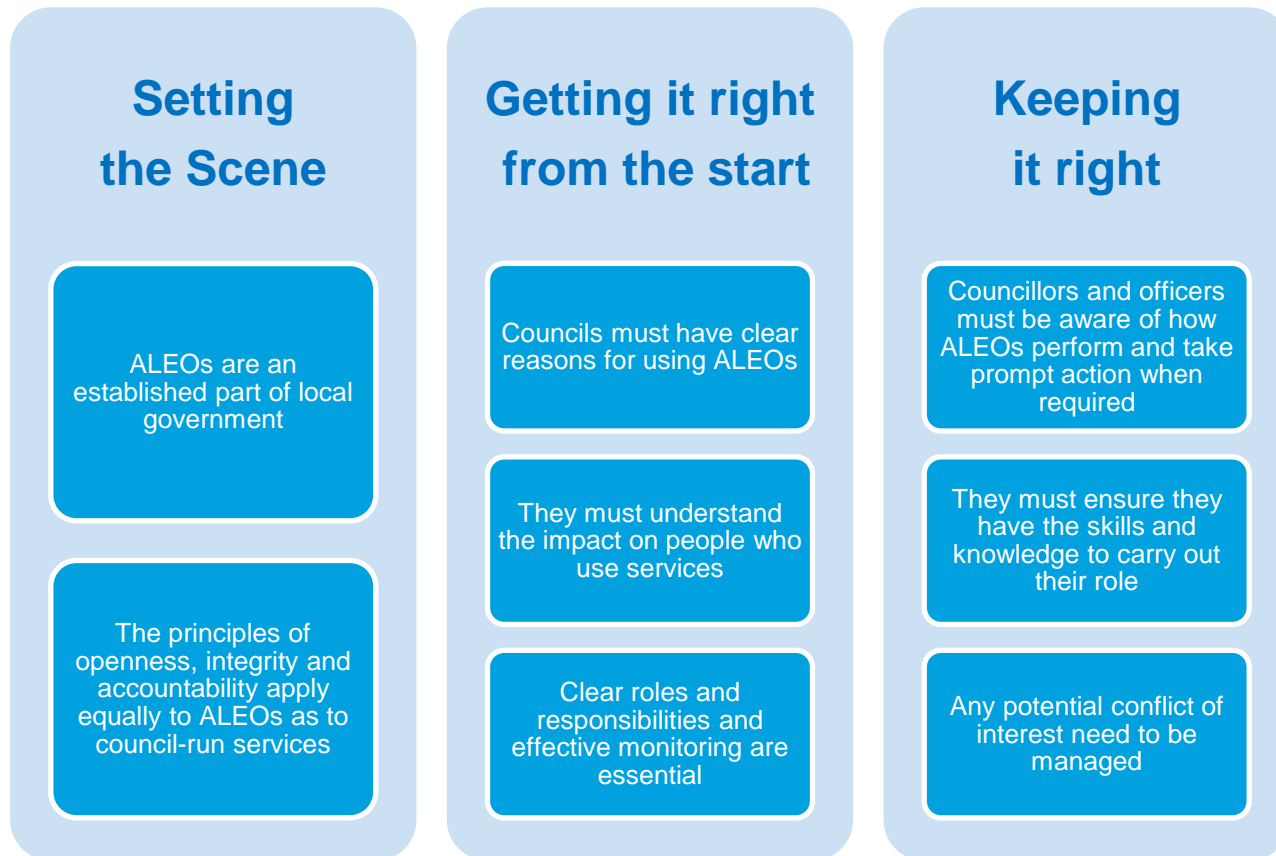
What is the scale of the organisation (workforce, turnover, assets etc)?

What legal status/relationship does the council have with each ALEO?

Are the governance arrangements effective?

# Introduction (continued)

Key Messages from “*Arm’s-length external organisations (ALEOs): are you getting it right?*” published in June 2011



# Quantitative data





# Quantitative Data

## Observation

There is no single definition of an ALEO. In accordance with Audit Scotland's guidance and for the purpose of this exercise, we have used the information in the Council's group accounts for 2012/13 as a starting point and updated for known changes in 2013/14.

While Clackmannanshire Council has not set up any organisations to specifically provide Council Services, there are organisations which the Council has an interest in and Elected Members have been nominated in either a decision-making or observational capacity. The principles of openness, integrity and accountability, therefore, equally apply.

From our review of the 2012/13 audited financial statements, we noted disclosure of a number of joint ventures and associates of the Council including CSBP and Forth Valley GIS (now renamed Thinkwhere). This disclosure clearly states the percentage of ownership which the Council has. There is no disclosure of individual voluntary organisations which the Council provides funding to.

### Recommendation

We note that there is no disclosure of the individual voluntary organisations that the Council funds. We recommend that disclosure is included in the accounts providing details of each individual voluntary organisation including the Council role, the Council contribution and the type of services delivered.



# Governance arrangements

How well does the council ensure that effective governance and accountability is maintained when the council delivers services through ALEOs, including companies and trust?



# Governance arrangements

Has the council formally considered the Commission's How Councils Work report on ALEOs. If so, did it develop an action plan and have actions been addressed?

***The Councils ALEOs Code of Practice which refers to the Commission's report has been formally considered by the Council.***

The Council and Resources & Audit Committee have both received and approved a copy of the Councils ALEOs Code of Practice which directly refers to the Commission's How Councils Work report on ALEOs and incorporates the recommendations made therein.

In fulfilling their statutory responsibility for best value, councils should consider options for delivering services and these options may include ALEOs. ALEOs can offer an alternative to more traditional 'in-house' or contact-based services and usually take the form of companies or trusts. There may be benefits in this approach, but likewise there are also risks.

The Council faces significant financial challenges over the next five years. In reviewing its budget strategy for 2015-2020, and through the 'Making Clackmannanshire Better' change programme, the Council is actively considering the contents of the Commission's report in determining how services should be delivered in the future. There may also be areas where there is a case for reducing direct Council expenditure and redirecting funding to external bodies where there is a clear business case and this can be proven to deliver better outcomes.

In determining "How" services are to be delivered as part of the current budget strategy review, as part of Making Clackmannanshire Better, the Council is actively considering the benefits and risks of ALEOs as laid out in the Commission's report

# Governance arrangements (continued)

## How clear is the council about its reasons for delivering services through ALEOs?

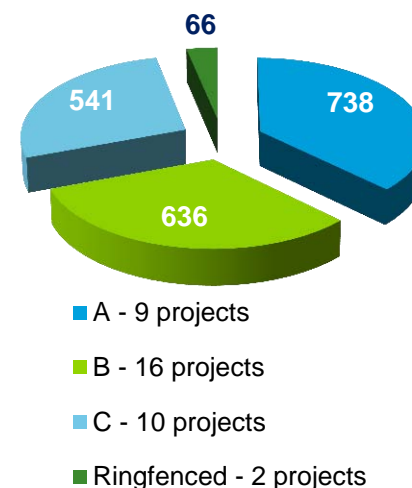
***No services are delivered through ALEOs.***

***The Council has formally assessed its outside bodies and continued involvement in them.***

While Clackmannanshire Council has not set up ALEOs to specifically provide Council Services, there are organisations which the Council has an interest in and Elected Members have been nominated to and are involved with these bodies. The principles of openness, integrity and accountability, therefore, equally apply.

In Spring 2013 the Council conducted a comprehensive independent review of all voluntary organisations. The aim of the review was to understand the impact that voluntary organisations were making on communities and people making use of services. As a result of the review, a number of recommendations have been made on voluntary organisations funded by the Council. This has included categorisation of each, with A rated projects noted as making a positive contribution to Council outcomes identified for 3 year SLAs (commencing in 14/15); B rated organisations identified for further support/training on outcomes monitoring and C rated organisations identified as those that the Council will cease funding after a 6 month grace/transition period (30th September 2014). This was agreed at Council Special Budget Meeting in February.

**Voluntary organisation grading project – split by category (£000s)**



### Recommendation

We recommend that the Council's continued involvement with its nominated external bodies is reviewed annually by elected members.

# Governance arrangements (continued)

How well does the council understand the financial commitment and risk to which it is exposed through ALEOs?

***Processes to help Members understand the risk to which they are exposed through outside bodies could be improved***

As previously noted, there are no ALEOs specifically set up to provide Council Services.

Council involvement in outside bodies is monitored through the register of interests, but there is currently no formal register which highlights the scope of Council involvement in each body. Other Councils that we are involved with have these processes in place.

This makes it difficult for members to readily identify which bodies the Council has a decision making role in, and which bodies the Council takes an observer role. Furthermore, it is not immediately clear what the financial position of each body is. Inclusion of these details would enhance the ability of the elected members to understand the risks that they are exposed to through outside bodies.

We enclose a guideline of the criteria which might be considered as part of this project.

## Criteria Checklist

### Section 1 - All:

- Name of organisation
- Type of organisation
- Number of representatives
- Proposed term
- Type of representation

### Section 2 – All:

- Accountability
- Public accessibility
- Internal governance
- Conduct of members
- General considerations

### Section 3 – for decision-making capacity:

- Financial requirements
- Financial information

## Recommendation

We recommend that the Council creates a formal register of Council Involvement by body to enhance the processes allowing members to better understand the risks they are exposed to through outside bodies.

# Governance arrangements (continued)

How effective are the council's arrangements for monitoring the financial and service performance of ALEOs, maintaining accountability and for ensuring audit access?

***No Council services are provided by ALEOs***

As previously noted, Clackmannanshire does not have any ALEOs providing Council Services.

The Council have published a 'Code of Practice: Funding External Bodies and Following the Public Pound'. This sets out the processes for funding ALEOs. This stipulates that a Service Level Agreement must be in place for each ALEO, clearly setting out:

- Financial reporting arrangements;
- Monitoring and reporting requirements;
- Conditions of funding and consequences of failure to adhere to conditions; and
- Statements on access to accounting records and records of meetings, that is requires to be given to Council staff, including internal and external audit staff.

Service Level Agreements in place for all ALEOs

Standard terms require access to accounting records



# Governance arrangements (continued)

Where members or senior officers are appointed to the board or equivalent of ALEOs, how clear are they about their role?

## *Elected members roles and responsibilities defined in ALEOs Code of Practice*

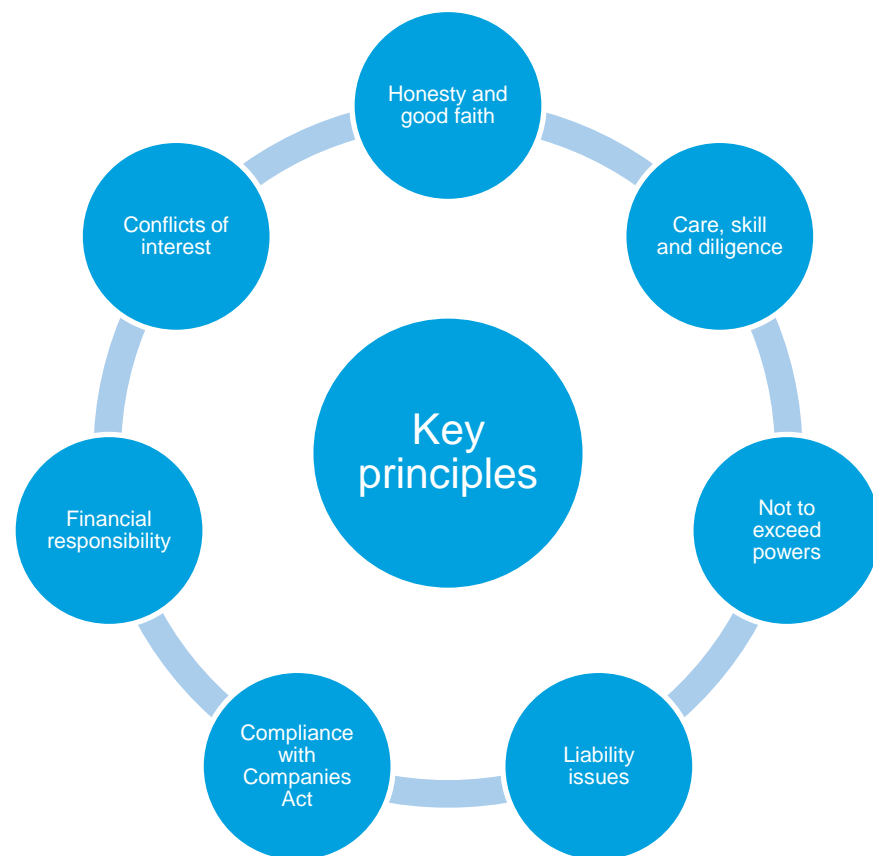
The Council ALEOs Code of Practice sets out in detail the roles and responsibilities of elected members and council officials. The key principles are set out in the graphic set out on this page.

Guidelines are also provided for Council Officers in relation to funding of ALEOs.

Governance training was provided to elected members as part of their induction process after the May 2012 elections. The Standards Commission has also undertaken training with members including the role of members on outside bodies.

## Recommendation

We recommend that the Council consider on an annual basis whether there is a requirement to provide any additional training to elected members to support and supplement the training previously provided and the guidance currently provided within the Code of Practice.



## APPENDIX B - GUIDANCE TO ELECTED MEMBERS AND OFFICERS WHO SERVE BOARDS/COMMITTEE'S OF EXTERNAL BODIES



# Responsibility statement



# Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of Audit Practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

Our audit is not designed to identify all matters that may be relevant to the Council and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

**Deloitte LLP**

Chartered Accountants

Edinburgh

6 June 2014



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**ARMS LENGTH EXTERNAL ORGANISATIONS****MANAGEMENT ACTION PLAN**

No	External Auditor Recommendation	Management Response	Due Date
1	We note that there is no disclosure of the individual voluntary organisations that the Council funds. We recommend that disclosure is included in the accounts providing details of each individual voluntary organisation including the Council role, the Council contribution and the type of services delivered.	Accepted. The principle of ensuring transparency over the Council's arrangements is agreed. However, the recommendation suggests an additional voluntary disclosure which would add to the length of the Council's financial statements. On this basis, and to be consistent with previous management of this issue, it is proposed that the requirement will be addressed as part of the annual budget setting process.	03/15
2	We recommend that the Council's continued involvement with its nominated external bodies is reviewed annually by elected members.	Accepted that the list of organisations the Council makes nominations to should be considered annually.	03/15
3	We recommend that the Council creates a formal register of Council Involvement by body to enhance the processes allowing members to better understand the risks they are exposed to through outside bodies.	Accepted. Council involvement in outside bodies is monitored through a register of interest, however, following the Auditor's recommendation, we are in agreement on the need to create a formal register highlighting the scope of the Council's involvement with each body, enabling an informed assessment of continued involvement.	09/15

No	External Auditor Recommendation	Management Response	Due Date
4	We recommend that the Council consider on an annual basis whether there is a requirement to provide any additional training to elected members to support and supplement the training previously provided and the guidance currently provided within the Code of Practice.	Accepted. This will be considered as part of the training needs assessment process undertaken for elected members.	09/15