

Aberdeen City Council

Aberdeen International Youth Festival- Following the Public Pound

Final Report

Internal Audit Report
2014/2015 for Aberdeen
City Council

February 2014

	Target Dates per agreed Internal Audit Charter	Actual Dates	Red/Amber/Green and commentary where applicable
Terms of reference agreed 4 weeks prior to fieldwork	17 September 2014	11 September 2014	Green
Planned fieldwork start date	15 October 2014	15 October 2014	Green
Fieldwork completion date	21 October 2014	10 November 2014	Red – PwC were asked to meet with the ex AIYF chairwoman prior to issuing the draft report.
Draft report issued for Management comment	24 November 2014	18 November 2014	Green
Management Comments received	02 December 2014	01 December 2014 26 January 2015 13 February 2015	Amber – delays in receiving comments from a key contact due to other work commitments.
Report finalised	13 February 2015	13 February 2015	Green
Submitted to Audit and Risk Committee	26 February 2015	26 February 2015	Green

.....



Contents

Section	Page
1. Executive Summary	3
2. Detailed findings and recommendations	5
Appendix 1 – Background and Scope	12
Appendix 2 – Agreed Terms of reference	14
Appendix 4 - Limitations and responsibilities	16

This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter dated 4 October 2010. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

Report classification	Total number of findings				
	← Section 3 →				
	Critical	High	Medium	Low	Advisory
High risk	Control design	-	-	-	-
	Operating effectiveness	-	2	1	2
	Total	-	2	1	2

Summary of findings

- 1.01 The scope of our review was to consider the funding provided to Aberdeen International Youth Festival (AIYF) and its compliance with the Council's 'Funding External Bodies and Following the Public Pound' guidance. Our testing covered each of the key sub-processes and control objectives as set out in the agreed terms of reference (appendix 2).
- 1.02 Based on our review of the controls implemented we have identified the following two high risk, 1 medium risk and two low risk findings;

High Risk

- The relationship between the Council and AIYF is not at arm's length. This review highlighted that the festival still operates as though it is part of the Council and not an external body. For example, Corporate Governance provides financial services and Legal Services provide legal advice to the Board of Trustees. This close relationship prevents the Council from making an independent and objective decision about whether an investment in the festival is an effective use of public money. There is also no service level agreement (SLA) in place to ensure responsibilities between the parties are clearly understood. In addition the
- Education, Culture and Sport are responsible for awarding funding and monitoring the festival; however the process followed does not comply with the requirements set out in the Council's "Funding External Bodies and Following the Public Pound" guidance. This includes; lack of financial planning, ensuring the festival has appropriate controls in place over finances, cashflow issues and checking that other sources of funding are secure. In 2013/14, AIYF received core funding of £122,393 from the Council and the same amount has been approved for 2014/15.

Medium Risk

- Aberdeen International Youth Festival latest set of audited accounts for the year ending 31 August 2013 were due to be submitted to the Office of the Scottish Charity Register (OSCR) by the 31 May 2014. These accounts were not signed off by the auditors until 26 August 2014. This highlights that there may be a lack of financial management within the festival.

Low Risk

- Four Councillors sitting on the Board of Trustees at Aberdeen International Youth Festival have not declared the organisation as a related entity in their Declaration of Interests.
- The “Funding External Bodies and Following the Public Pound” guidance has not been reviewed as per the review date in October 2012.

On request from Angela Scott (Chief Executive), PwC met with Jennifer Stewart (ex-Chairwoman, Aberdeen International Youth Festival) to discuss the draft report on 10th November 2014. During this meeting, Jennifer expressed her personal concerns relating to governance within the festival. As the concerns raised did not fall within the scope of this review, PwC have not investigated these, nor have we a view upon them. To ensure appropriate follow up internally, PwC sent minutes of this meeting to the Council on 16th December 2014.

Management comments

Management welcome the review of the funding provided to and the Council’s relationship with AIYF and will seek to make the Board aware of the challenges that exist and the need to improve the financial management and governance arrangements they have in place.

2. Detailed findings and recommendations

2.01 Arm's Length External Organisation Relationship – control design

Finding

The relationship between AIYF and the Council is not considered appropriate for an arm's length organisation. Through discussion with various stakeholders (Budget Holder, Lead Officer, Accounting Officer and Corporate Accounting Manager) it was ascertained that, in practice, AIYF operates as an extension of the Council rather than an external organisation. It is believed that this may stem from the fact that AIYF receives substantial support from the Council and there is a desire for the festival to continue.

The financial services for AIYF are performed by the Council and as a result AIYF rely heavily on the Accounting Officers support for the financial planning of the organisation. As the Council are actively involved in producing the finances on behalf of AIYF, a self-review issue may prevent an independent assessment and analysis of the financial position. Management have also highlighted that, due to the preparation of accounts, there is less time available for officers to critically assess the finances. Please note that it is formally documented in the constitution/ articles of association that the City Chamberlain (now Head of Finance) is to provide financial services to the festival.

Best practice states that for funding greater than £75,000, a service level agreement (SLA) is required to be in place to ensure that responsibilities between the parties are clearly understood. There is currently no SLA in place, and instead an annual funding agreement letter is issued to AIYF. Although the annual funding letter does provide a level of comfort, it does not define the roles, responsibilities or liabilities. This is a key issue given the current resource sharing arrangement. The contents of the 2013/14 and 2014/15 funding letter were assessed against the minimum requirements and it was noted that in both instances the 'purpose of the funding and expectation of use' were not clearly defined. In addition to this, no statement is made in either letter with regards to 'access to the accounting records of the organisation that requires to be given to Council staff, including internal and external audit staff'.

Risks

This close working relationship could prevent the Council from taking an independent view of AIYF. The inability to perform an impartial review of AIYF as an investment with regards to achieving value for money may result in public funds being invested inappropriately. As roles, responsibilities and liabilities between the parties are unclear, an ambiguous relationship is created.

Action plan		
Finding rating	Agreed action	Responsible person / title
High	The Board should be made aware of the challenges with the current governance structure with a recommendation that they agree to change their Articles of Association to enable a more flexible and arm's length relationship to be put in place and that future arrangements between AIYF and the Council will require to be underpinned by a formal agreement e.g. a Service Level Agreement	Head of Finance
		Target date:
		31 March 2015

2.02 Financial Information – control effectiveness

Finding
<p>AIYF is required to submit a formal business plan to the Council, on an annual basis for funding. The festival receives ‘core funding’ which is approved by the Culture and Sport Sub Committee based on their on-going understanding of the organisation. During the review we noted that this plan has never been submitted and as a result a number of findings in relation to the requirements of the application have been noted:</p> <ul style="list-style-type: none">• Check that the projections in the financial plan are realistic and achievable/a detailed one year financial plan and summary 3 year plan should be provided. AIYF did not have a detailed business plan which gives a detailed 1 year plan nor a summary 3 year plan. The only financial planning prepared is a high level budget for each year. This budget is prepared by the Chief Executive of AIYF. The Accounting Officer for the Council is involved in monitoring and reviewing this budget.• Ensure the organisation has adequate policies and procedures in place to govern the way their finances are handled. Per discussions with the Accounting Officer and Lead Officer no formal checks are undertaken to ensure AIYF has adequate policies and procedures in place to govern their finances. The Chief Executive has complete control over expenditure. Currently there is no scheme of delegations in place and therefore the Chief Executive does not require Trustee approval for certain levels of expenditure.• Check that sufficient cash exists to enable the organisation to meet its financial obligations for the foreseeable future (at least 12 months). The Accounting Officer prepares cashflow on a regular basis over the months of May to August. This is the period where there is considerable financial activity and therefore the greatest need for careful cash planning. Cashflows are prepared to allow monitoring of the AIYF cash position by the Council. This has highlighted that on a number of occasions AIYF will not have enough cash to pay the bills. On these occasions this was raised to the Trustee by the Accounting Officer. This highlights that AIYF has serious cashflow issues and the Council is being relied upon to identify this.• Check that any other material sources of external funding are secure and assess any risks relevant to the ability of the organisation to continue as a going concern. This check is not performed. Sponsorship from other parties is obtained on a year to year basis and often not confirmed until during the year. AIYF usually obtains a high level of sponsorship, obtaining £92,800 2012/13 per the 31 August 2013 signed accounts and expects to receive approximately £88,000 in 2014/15. The two largest sponsors are Shell and BP providing approximately £45,000 and £24,000 respectively. <p>The Following the Public Pound guidance also requires a checklist to be completed when assessing ALEO funding applications. A copy of the completed checklist should be retained on file and used to evidence that best practice has been adhered to. This has not been completed and as a result areas of best practice may be missed when reviewing the eligibility of AIYF for funding.</p> <p>Management have commented that these issues have been highlighted to elected members through the committee structure on a number of occasions.</p>
Risks
<p>As the Council is heavily involved in the running of AIYF, little consideration has been given to scrutinising the financial data in an unbiased way. As a result, public funds may be invested inappropriately. There is also a reputational risk to the Council, associated with the financial failing of the festival.</p>

Action plan		
Finding rating	Agreed action	Responsible person / title
High	The Council should request that AIYF prepare and submit a formal business plan in advance of the decision to award funding for 2015/16. The plan should include the attributes required by the Following the Public Pound guidance and the Council should assess this against the checklist provided.	Cultural Policy & Partnership Manager
		Target date:
		31 March 2015

2.03 Submission of Financial Statements– control effectiveness

Finding		
The 2012/13 financial statements were due to submitted to the Office of the Scottish Charity Register (OSCR) by 31 May 2014. However, based on a review of the Trustee meeting minutes on the 16 June 2014 these were not complete and therefore had not been audited. The accounts for the year ending 31 August 2013 were not signed off by the auditors until 26 August 2014. This raises a question over the financial management of AIYF.		
Risks		
There may be regulatory and reputational risks associated with the late issuing of financial statements.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	The Board should be reminded of the requirement to provide information to the Treasurer in order to produce the accounts on a timely basis for the Board and OSCR.	Head of Finance
		Target date:
		31 March 2015

2.04 Register of Interests – control effectiveness

Finding		
Following the Public Pound guidance states that the Council should maintain an up to date register of interests for representation on external bodies. It is a Councillors own responsibility to fill out a declaration of interest and Legal and Democratic Services issue six monthly reminders. The most recent declaration of interests for each councillor can be viewed online. A listing of Councillors who are Trustees for AIFY was obtained on the 15 October 2014 and each of their declarations reviewed. For 4 out of the 6 Councillors, AIYF was not listed as a related body. All 4 of these Councillors were listed as a Trustee in the last set of audited financial statements (year ending 31 August 2013).		
Risks		
There is a risk that conflicts of interests may not be identified and decisions are not made independently.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	Councillors will continue to be reminded of their obligation to maintain the register of interest on a 6 monthly basis. For the 4 Councillors which were highlighted as not having updated the register, individual reminders will be issued as a matter of priority.	Head of Legal and Democratic Services.
		<div>Target date:</div> <div>28 February 2015</div>

2.05 Following the Public Pound Code of Practise– control effectiveness

Finding		
The Council’s “Funding External Bodies and Following the Public Pound” guidance was obtained in order to review AIYF funding arrangements against best practise. This document was last approved on the 6 October 2011 and was due for review in October 2012. The review did not take place and therefore this guidance may be outdated.		
Risks		
There is a risk that the guidance does not reflect updates in industry best practice.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	The “Funding External Bodies and Following the Public Pound” guidance should be reviewed and updated if appropriate.	Corporate Accounting Manager
		Target date:
		30 September 2015

Appendix 1 – Background and Scope

Background

- 2.01 Aberdeen City Council invests in Arm's Length External Organisations (ALEOs) which bring sport and cultural events to Aberdeen. These events are important to the people of Aberdeen, as well as helping to attract visitors. One ALEO which receives funding for this purpose is Aberdeen International Youth Festival (AIYF). In 2013/14, AIYF received core funding of £122,393 and the same amount has been approved for 2014/15.
- 2.02 On the 12 August 2014 the Chairwoman of AIYF resigned stating that spending within the organisation was poorly controlled. As a result, internal audit have carried out a review of the AIYF under the Council's policy of 'Funding External Bodies and Following the Public Pound'.

Aberdeen International Youth Festival

- 2.03 The main objective of AIYF is to deliver an annual youth arts festival which showcases talented performers and artists. AIYF aims to encourage the participation in performing and visual arts amongst young people from across the globe. This festival takes place in summer and consists of music performances, galas and a range of community art venues. The festival itself is over forty years old; however, the existing organisation was jointly established in 1983 by the Council, the University of Aberdeen and the Advisory Committee of the Aberdeen International Festival of Music and Performing Arts.
- 2.04 Per the audited set of Financial Statements for the year ending 31 August 2013, AIFY had a total income of £557,550. The Council provided core funding of £122,563 (c. 22% of total funding) with the rest of the income coming through sponsorship and fees. The accounts showed that AIYF had a deficit of approximately £15,000 and was sitting in a net liability position. The accounts were prepared on a going concern basis and an unqualified opinion was given by the auditors (Williamson and Dunn).
- 2.05 AIYF's relationship with the Council is unique because a team within the Council's Corporate Governance Directorate performs the financial services for AIYF and there are a significant number of elected members from the Council on the Board of Trustees. A listing of trustees was obtained on 15 October 2014 which showed that 7 of the 14 trustees of AIFY were Councillors. The Council does not receive a fee for the financial services performed because it is considered that the Council would be required to provide AIYF with additional funding in order to pay these fees.
- 2.06 Due to known on-going issues with the sustainability of AIYF, discussions are currently taking place with regards to the festival's future. Council Officers and members of the AIYF staff have worked collaboratively over the last 18 months to consider a number of future options for the festival. Written and verbal updates have been provided to both the Audit and Risk Committee and Culture and Sport Sub-Committee in relation to this. At the time of reporting, the Board of Trustees had not felt able to make a decision on the future of the festival.
- 2.07 A review of external investments in Culture and Sport was undertaken and presented to the Culture and Sport Sub-Committee on the 10 January 2013. This review highlighted several risks associated with the operation and sustainability of AIFY. Approval for further funding was recommended and approved on the condition that the future of the festival was agreed and a Service Level Agreement was put in place.

2.08 AIYF currently only has 1 employee, the Chief Executive. Historically AIYF has operated with between 2 to 3 employees.

Scope and limitations of scope

2.09 The detailed scope of this review is set out in Appendix 2. We have undertaken a review of the compliance with the Council's FTTP policy and guidance in relation to AIYF.

Appendix 2 – Agreed Terms of reference

Background

The Chairwoman of Aberdeen International Youth Festival resigned on 12 August 2014 due to accusations that spending within the organisation is poorly controlled. Aberdeen City Council provides the festival with annual funding of £140,000.

As a result, a review of the Aberdeen International Youth Festival will be carried out under the Council policy of ‘Funding External Bodies and Following the Public Pound’.

Scope

The scope of this review is to consider compliance with the Council’s FTTP policy and guidance in relation to the Aberdeen International Youth Festival. The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Governance Arrangements	<ul style="list-style-type: none">• Written agreements exist which define roles, responsibilities and liabilities. The agreements is used to define an unambiguous relationship between the Council and Aberdeen International Youth Festival;• Funding is approved in line with the Council’s scheme of delegation;• Funding agreements exist (e.g. Service Level Agreements, application forms, letters of approval) to outline the agreed payment by the Council; and• A central register of interests is maintained by the Council to ensure any conflicts of interest are monitored and managed.
Monitoring Arrangements	<ul style="list-style-type: none">• The Council has sufficient information to allow monitoring of the Aberdeen International Youth Festival and the information is in line with that required by the FTTP guidance (per Appendix A); and• A budget holder and services accountant has been allocated and financial monitoring is performed in line with the FTTP guidance.
Payments	<ul style="list-style-type: none">• No payments are made to the Aberdeen International Youth Festival until all relevant financial checks have been completed to ensure the Council is comfortable the body will be a going concern.

Limitations of scope

The scope of our work is outlined above and will be performed on a sample basis. Our review will focus on the overarching governance arrangements in place between the Council and Aberdeen International Youth Festival, and compliance with the FTTP guidance. We will not undertake a review of the key controls within Aberdeen International Youth Festival (for example financial and budgetary controls) or review how they are discharging their role and remit.

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the procedures in place through discussion with key personnel, review of documentation and walkthrough tests where appropriate.
- Identify the key risks in respect of car parking and bus lane enforcement.
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls on a sample basis.
- Assess compliance with FTTP guidelines

Appendix 4 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of Aberdeen international Youth Festival, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to Aberdeen International Youth Festival is as at September 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Aberdeen City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation. If, following consultation with PwC, Aberdeen City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Aberdeen City Council and solely for the purpose and on the terms agreed with Aberdeen City Council in our agreement dated 4 October 2010. We Accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.