

Audit of Tullie House

Draft Report Issued: 31 January 2020
Director Draft Issued: 14 February 2020
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Audit Report Distribution

| | |
|-------------------------|---|
| Client Lead: | Health & Well-Being Manager |
| Chief Officer: | Deputy Chief Executive Chief Executive Director of Finance & Resources |
| Others: | Policy & Performance Officer Principal Accountant Teams & Events Co-Ordinator |
| Audit Committee: | The Audit Committee, which is due to be held on 16 March 2020 will receive a copy of this report. |

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Tullie House. This was an internal audit review included in the 2019/20 risk-based audit plan agreed by the Audit Committee on 18th March 2019.
- 1.2 Tullie House is Carlisle's primary museum and art gallery. The City Council owns the building and collection, but since 2011 has contracted management of the facility to Tullie House Trust, a registered charity and company.
- 1.3 The City Council provides financial support to Tullie House through an annual fee, along service payments for Human Resources, ICT Services, Payroll and Health and Safety, as well as maintaining building maintenance liabilities.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was the Health & Well-Being Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
 - Risk 1. Failure to achieve business objectives due to insufficient governance arrangements.
 - Risk 2. Objectives not achieved due to failure to monitor and ensure:
 - i) Satisfactory performance of service delivery.
 - ii) Financial monitoring arrangements in place
 - iii) Suitable risk management arrangements in place to identify and control potential threats to service delivery.
 - iv) Value for money
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within the Council's management of Tullie House provide **reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

| Control Objective | High | Medium |
|--|------|----------|
| 1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1) | - | 7 |
| 2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2) | - | - |
| 3. Information - reliability and integrity of financial and operational information (N/A) | | |
| 4. Security - safeguarding of assets (N/A) | - | - |
| 5. Value – effectiveness and efficiency of operations and programmes (see section 5.3 or N/A) | - | 1 |
| Total Number of Recommendations | - | 8 |

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.3 Findings Summary (good practice / areas for improvement):

An appropriate governance framework is in place to ensure suitable monitoring of the delivery of contractual arrangements. There has clearly been good progress made in developing current monitoring arrangements, in terms of increasing the information provided to the Council and ensuring value for money is achieved.

Further development of the current minutes is recommended, along with earlier distribution to all parties in order to ensure timely and complete addressing of outstanding actions. In addition, meetings need to be scheduled in a manner that minimises disruption, but also ensures timely and complete financial reporting is in place.

There is a need to ensure all risks are being appropriately managed, including financial risks in relation to variations to funding levels and adherence to the collection and loans agreement. The Council could also consider developing risk management arrangements by working with the Trust to manage shared risks.

A performance management framework is in place, including relevant and supported data. However, both parties have recently acknowledged a need to improve performance information and the Council needs to ensure it continues to challenge targets and performance to ensure value for money and continual improvement.

However, the Council need to also ensure monitoring arrangements are not restrictive and are only devised to ensure value for money is achieved for grant payments made (which may need to be reviewed as funding levels continue to be reduced). The Council rightly provide a degree of independence to the Trust to run the museum as they best see fit and this should be borne in mind for any changes to the monitoring framework.

Comment from the Deputy Chief Executive

This report is welcomed and the recommendations contained within will assist the Council to maintain a suitable balance between obtaining assurance on the value derived from funding Tullie House Trust and not over burdening the Trust with too much performance management.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** Over-arching responsibility for monitoring contractual performance previously rested with the Contracts & Community Manager. Following the vacation of this post in 2018/19 the team was re-structured, including creation of a new management post responsible for this area (Health & Well-Being Manager).
- 5.1.2** Support is also provided by Council officers for performance (Policy & Performance Officer), finance (Principal Accountant) and administration (Teams & Events Co-Ordinator).
- 5.1.3** The Deputy Chief Executive has senior management oversight of the role and receives regular updates from the Health & Well-Being Manager. Member oversight is delegated to the Culture, Heritage & Leisure portfolio holder. Both are invited to the regular contract monitoring meetings. In line with the contracted agreement, the Council also has two Members sitting on Tullie House Trust's Board.
- 5.1.4** The Health & Well-Being manager received a suitable induction to carry out the monitoring role, through meeting with the previous post-holder and ongoing support from the officers mentioned above.
- 5.1.5** A signed contract (including relevant additional agreements) specifying the obligations for each party is in place from 2011-2041.
- 5.1.6** Tullie House Trust submit an annual business plan to the Council, outlining their objectives for the coming year and setting out how these will be achieved, including Key Performance Indicators, proposed annual budget and forward funding arrangements (currently up to three years).
- 5.1.7** A time-table is in place to ensure the plan is presented to the Council's Health & Well-Being Scrutiny Panel, Executive and full Council. It is noted that Tullie House Trust do not receive formal notification of this time-table until close to the deadline. The Trust will have a good indication of when plans are due for renewal (as the process does not change much year from year); however, it would be good house-keeping for the Trust to have advance sight of the time-table as soon as it is verified.
- 5.1.8** The primary information for the Council to review is indicative funding levels and performance indicators (the latter to ensure the Council receives value for money for providing ongoing funding)

- 5.1.9** The existing business plan for 2019/20 was approved by the Council in December 2018 and a plan for 2020/21 was also approved in January 2020. There are differences in relation to proposed funding between the two parties (see 5.3).
- 5.1.10** The Council made a request for additional detail to be included in the latest business plan (2020/21). This has been satisfactorily addressed through submission of a more detailed plan by the Trust
- 5.1.11** Regular quarterly contract meetings are in place between the Council and Trust to discuss progress made against the business plan. Prior to each meeting the Trust provides the Council with a Director's Report, including significant achievements and business objectives delivered in the period, a KPI summary and management accounts for the period.
- 5.1.12** These are reviewed by the relevant officers prior to the meetings, which are then discussed, alongside any other actions needed.
- 5.1.13** As with the Business Plan, the Health and Well-Being Manager feels the Trust is improving the content of these documents in line with Council requirements.
- 5.1.14** A sample of KPI reports was traced back to supporting documentation, which confirmed data is accurately reported to the Council. The Trust provide a narrative to explain under/over performance and plans in place to improve performance where necessary.
- 5.1.15** Financial performance is reviewed by the Principal Accountant, who will discuss any variations or concerns in the meetings. The Trust provided Internal Audit a copy of their audited accounts on request; it is advised the Council continues to request these annually for ongoing assurance over the accuracy of the Trust's financial information.
- 5.1.16** Meetings are generally held on a timely basis and attended by relevant officers. Both parties are working on aligning the meetings with the Trusts own board meetings to help minimise work generated for the Trust, while still ensuring the Council receives timely information.
- 5.1.17** The current meeting time-table has resulted in the Council not seeing an end of year performance report, making it difficult to ensure current targets are based on continual improvement.
- 5.1.18** The meeting minutes do not currently include a tracked action list, making it difficult to ascertain if an agreed action has been completed.

5.1.19 It was also noted that the latest minutes had not been placed on the SharePoint site on a timely basis and that Tullie House Trust staff do not get early sight of minutes to ascertain actions required on their behalf.

Recommendation 1 – The monitoring meetings should be scheduled in a way that minimises disruption for both parties but allows for timely & complete reporting.

Recommendation 2 – Monitoring meeting minutes should be developed to ensure all actions are logged and only removed once confirmed as completed.

Recommendation 3 – Monitoring meeting minutes should be made available to both parties on a timelier basis.

5.1.20 The Health & Well-Being risk register includes three risks relating to Tullie House. The risks are reviewed on a regular basis and suitable mitigating actions are in place to address the risks. However, the Health & Well-Being Manager confirmed no action is currently in place to ensure the Trust are adhering to the Collection and Loans agreement.

Recommendation 4 – A process should be established to obtain assurances over the Trust's adherence to the collection and loans agreement.

5.1.21 There is currently a difference between the Trust and Council regarding longer-term funding arrangements (see 5.3). This has previously resulted in an additional one-off budget pressure to the Council's Medium-Term Financial Plan of £450K. This is a realised risk, which is also still live as each party holds a view on future funding expectations.

Recommendation 5 – The risk register should be reviewed and updated to include all current risks, including achievement of saving targets specified in the Council's Medium-Term Financial Plan.

5.1.22 Tullie House Trust also maintain their own risk register. This was not reviewed in detail, as this is the Trust's to manage, but it is noted the register appears comprehensive.

5.1.23 There has been no shared review of risk management between the parties. Some risks are shared and as the owner of the building and collection, the Council ultimately have responsibility for certain risks associated with the running of the museum.

Recommendation 6 – The Council should obtain regular assurances regarding the Trust's risk management and develop a system to manage shared risks.

5.1.24 A dedicated SharePoint site has been created to store key documents such as the contract and monitoring meeting minutes. Relevant Council officers have access to the site. Improvements to the site have been identified. For example, the site does not contain:

- monitoring minutes prior to March 2018;
- business plans submitted by the Council and related Council decisions;
- documents to support service payments agreed between the parties.

Recommendation 7 – The SharePoint site should be developed to include all relevant records.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 The Council provides core funding to the Trust, as specified in the annual plan. The funding is based on the Trust's annual budget and is subject to interest calculations. The interest calculation is complex, with different rates applied to different budget lines. There is evidence the interest rate is reviewed and agreed by both parties.

5.2.2 The Council previously provided the following support services to the Trust; human resources, payroll, ICT, health and safety and building maintenance. The contract allowed for the Trust to procure/deliver these services directly in return for additional payment from the Council. This is now in place for all services except building maintenance.

5.2.3 Correspondence was provided that showed all payments had been calculated, reviewed and approved by both parties. However, some supporting information was missing, leaving the audit trail incomplete. The need to improve the information held on SharePoint (see recommendation 7) will ensure a complete audit trail is in place.

5.2.4 A reconciled schedule of all payments to the Trust is maintained by the Principal Accountant. This was found to accurately reflect agreements. Provision of funding is currently under review and both the Trust and Council have expressed a desire to consolidate the various funding streams into one payment.

5.3 Value – effectiveness and efficiency of operations and programmes

- 5.3.1** The Council has continued to reduce grant funding to Tullie House Trust in line with national reductions in government funding. Additionally, one of the original intentions of outsourcing to the Trust was to reduce the Council's ongoing financial commitment.
- 5.3.2** In their 2020/21 business plan Tullie House Trust have acknowledged these reductions, specifying a priority to be less reliant on Council funding.
- 5.3.3** As part of the 2019/20 funding agreement, the Council proposed a £300K reduction in funding from 2020/21 onwards. Tullie House Trust provided a counterproposal to gradually reduce expenditure by £200K over 3 years. Discussions resulted in an agreement to gradually reduce funding by £300K over 3 years, resulting in an additional one-off budget pressure for the Council of £450K.
- 5.3.4** As part of the latest funding agreement, the Trust are still proposing funding cuts are restricted to £200K, but the Council has agreed to maintain the Medium-Term Financial Plans proposed savings of £300K. The Council needs to ensure funding/financial risks are managed on a continuing basis (See recommendation 5).
- 5.3.5** A bench-marking exercise would not give a meaningful value-for-money assessment due to the variations in nature, location and demographics of other museums.
- 5.3.6** It is therefore agreed by both parties that performance indicators are the key measurement for demonstrating value for money. Indicators are in place with targets and a narrative is established to demonstrate actions to address any under-performance.
- 5.3.7** However, as stated above, the Council did not have sight of year-end performance, so are unable to fully ascertain the extent targets accurately reflect continuous improvement.
- 5.3.8** Focus has recently been on resolving the differences between funding requirements and the Council has acknowledged their review of performance information has been relatively light touch. It is important the Council focuses on the performance information to ensure the Trust are continuing to deliver both value for money and continuous improvement, though the Council should bare in mind the impact proposed reductions to funding levels have on expectations. Both parties have recognised performance information could be further improved and it was agreed in December 2019 that new indicators would be established.

Recommendation 8 – The Council should obtain assurances that performance information represents value for money and continuous improvement.

Appendix A – Management Action Plan

| Summary of Recommendations and agreed actions | | | | | |
|---|----------|--|---|-----------------------------|---|
| Recommendations | Priority | Risk Exposure | Agreed Action | Responsible Manager | Implementation Date |
| Recommendation 1 – The monitoring meetings should be scheduled in a way that minimises disruption for both parties but allows for timely & complete reporting | M | Failure to manage risk / make key decisions on a timely basis. | Reschedule meetings to ensure that they fit in with both parties schedules | Health & Well-Being Manager | 26 Feb 2020 Next contract monitoring meeting |
| Recommendation 2 – Monitoring meeting minutes should be developed to ensure all actions are logged and only removed once confirmed as completed. | M | Failure to ensure actions are completed. | Contract monitoring meetings minutes to be reviewed to ensure adequate information is contained | Health & Well-Being Manager | 26 Feb 2020 Next contract monitoring meeting |
| Recommendation 3 – Monitoring meeting minutes should be made available to both parties on a timelier basis. | M | Failure to manage risk / make key decisions on a timely basis. | Contract monitoring meetings minutes to be issued within 7 days of the meeting | Health & Well-Being Manager | 26 Feb 2020 Next contract monitoring meeting |
| Recommendation 4 – A process should be established to obtain assurances over the Trust's adherence to the collection and loans agreement | M | Failure to safeguard of the Council's collection. | To be discussed at next contract monitoring meeting and actions agreed and recorded | Health & Well-Being Manager | 26 Feb 2020 Next contract monitoring meeting |

| Summary of Recommendations and agreed actions | | | | | |
|---|----------|--|---|-----------------------------|---|
| Recommendations | Priority | Risk Exposure | Agreed Action | Responsible Manager | Implementation Date |
| Recommendation 5 – The risk register should be reviewed and updated to include all current risks, including achievement of saving targets specified in the Council's Medium-Term Financial Plan | M | Failure to manage risk / make key decisions on a timely basis. | Update risk register to ensure that all current risks are included | Health & Well-Being Manager | 1 st April 2020 |
| Recommendation 6 – The Council should obtain regular assurances regarding the Trust's risk management and develop a system to manage shared risks. | M | Failure to manage risk / make key decisions on a timely basis. | Explore option for shared risk register at next contract monitoring meeting and implement | Health & Well-Being Manager | 31 st May 2020 |
| Recommendation 7 – The SharePoint site should be developed to include all relevant records. | M | Lack of audit trail to support key decisions | This has been developed and will be the default site for all information | Health & Well-Being Manager | 26 Feb 2020 Next contract monitoring meeting |
| Recommendation 8 – The Council should obtain assurances that performance information represents value for money and continuous improvement | M | Failure to ensure delivery of VFM. | To be discussed at next contract monitoring meeting and actions agreed and recorded | Health & Well-Being Manager | 26 Feb 2020 Next contract monitoring meeting |

Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

| | Definition: | Rating Reason |
|---------------------|--|--|
| Substantial | There is a sound system of internal control designed to achieve the system objectives and this minimises risk. | <p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p> |
| Reasonable | There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure. | <p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p> |
| Partial | The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk. | <p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p> |
| Limited/None | Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk. | <p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p> |

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

| | Definition: |
|---------------|--|
| High | Significant risk exposure identified arising from a fundamental weakness in the system of internal control |
| Medium | Some risk exposure identified from a weakness in the system of internal control |

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).