Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
Executive Director: Douglas Hendry

Kilmory, Lochgilphead, PA31 8RT
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11 December 2018

NOTICE OF MEETING

A meeting of the **AUDIT AND SCRUTINY COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **TUESDAY, 18 DECEMBER 2018** at **11:30 AM**, which you are requested to attend.

Douglas Hendry
Executive Director of Customer Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

3. **MINUTES** (Pages 3 - 8)

   Minutes of the Audit and Scrutiny Committee as held on Tuesday 25 September 2018.

   AUDIT ITEMS

4. **INTERNAL AUDIT SUMMARY OF ACTIVITIES** (Pages 9 - 16)

   Report by Chief Internal Auditor

5. **INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2018/19** (Pages 17 - 102)

   Report by Chief Internal Auditor

6. **INTERNAL AUDIT REPORT FOLLOW-UP 2018/19** (Pages 103 - 108)

   Report by Chief Internal Auditor

7. **DRAFT 2019/20 INTERNAL AUDIT PLAN** (Pages 109 - 124)

   Report by Chief Internal Auditor

   SCRUTINY ITEMS

8. **COUNCIL 6 MONTH PERFORMANCE: APRIL TO SEPTEMBER 2018 - TO FOLLOW**

Report by Executive Director of Customer Services

9. **WITHDRAWAL FROM EUROPEAN UNION** (Pages 125 - 142)

Report by Audit Scotland

10. **CORPORATE COMPLAINTS - ANNUAL REPORT 2017/18** (Pages 143 - 170)

Report by Executive Director of Customer Services

11. **AUDIT AND SCRUTINY COMMITTEE WORKPLAN** (Pages 171 - 176)

12. **RECOMMENDATION FROM BUTE AND COWAL AREA COMMITTEE HELD ON 4 DECEMBER 2018**

(a) Extract of Minute from Bute and Cowal Area Committee held on 4 December 2018 (Pages 177 - 178)

(b) Rothesay Pavilion Progress Report (Pages 179 - 196)

E1   (c) Appendix (Pages 197 - 198)

The Committee will be asked to pass a resolution in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public for items of business with an "E" on the grounds that it is likely to involve the disclosure of exempt information as defined in the appropriate paragraph of Part I of Schedule 7a to the Local Government (Scotland) Act 1973.

The appropriate paragraphs are:-

E1 –

Paragraph 8 The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.

Paragraph 9 Any terms proposed or to be proposed by or to the authority in the course of negotiations for a contract for the acquisition or disposal of property or the supply of goods or services.

Audit and Scrutiny Committee

Martin Caldwell (Chair)
Councillor George Freeman
Councillor Alan Reid
Councillor Richard Trail

Councillor Jim Findlay
Councillor Sir Jamie McGrigor
Councillor Sandy Taylor (Vice-Chair)
Councillor Andrew Vennard

Shona Barton, Area Committee Manager

Contact: Lynsey Innis, Senior Committee Assistant; Tel: 01546 604338

MINUTES of MEETING of AUDIT AND SCRUTINY COMMITTEE held in the COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on TUESDAY, 25 SEPTEMBER 2018

Present: Martin Caldwell (Chair)

Councillor Jim Findlay   Councillor Sandy Taylor
Councillor George Freeman   Councillor Richard Trail
Councillor Alan Reid   Councillor Andrew Vennard

Attending: Cleland Sneddon, Chief Executive
Kirsty Flanagan, Head of Strategic Finance
Jane Fowler, Head of Improvement and HR
Laurence Slavin, Chief Internal Auditor
Shona Barton, Area Committee Manager
Sonya Thomas, Performance Management and Improvement Officer
Abbie Macalister, Trainee Auditor
David McConnell, Audit Scotland
Michael Simpson, Audit Scotland

1.   APOLOGIES FOR ABSENCE

The Chair welcomed everyone to the meeting, and in particular Abbie Macalister, Trainee Auditor with Strategic Finance and Michael Simpson of Audit Scotland. The Chair advised the Committee that as David McConnell of Audit Scotland was retiring, this would be his last meeting of the Audit and Scrutiny Committee. Mr Caldwell took the opportunity to thank Mr McConnell for his service to the Committee and wished him well for the future.

Apologies for absence were intimated on behalf of Councillor Sir Jamie McGrigor.

2.   DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3.   MINUTES

The Minutes of the Audit and Scrutiny Committee as held on 19 June 2018 were approved as a true record.

4.   INTERNAL AUDIT SUMMARY OF ACTIVITIES

The Committee gave consideration to a report providing a summary of Internal Audit activity and progress during Quarter 2 against a number of areas, which included:

- 2018/19 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

Members noted that the scope of the marine services review had been expanded to cover all four of the ferry services provided by the Council. They also noted that the scope of the Oban airport audit had been expanded to include information on invoices received by the Council from the Scottish Fire and Rescue service.

Decision:

The Audit and Scrutiny Committee agreed to endorse the report.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted)

5. **INTERNAL AUDIT REPORTS TO AUDIT & SCRUTINY COMMITTEE 2018/19**

The Committee gave consideration to a report containing the action plans in relation to the following 6 audits:

- Community Empowerment Act
- Member Services
- ALEO – Live Argyll
- Equality and Diversity
- Adult Learning
- Planning Fees

Decision:

The Audit and Scrutiny Committee agreed to endorse the summary report and detail within each individual report.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted)

6. **INTERNAL AUDIT REPORT FOLLOW-UP 2018-19**

The Committee gave consideration to a report and accompanying appendices which documented the results from a review performed by Internal Audit into the progress made by departmental management across all services in completing all open actions which were due to be implemented by 31 July 2018. The report also included information on actions where the agreed implementation date had been rescheduled.

Decision:

The Audit and Scrutiny Committee agreed to endorse the contents of the report.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted)

7. **2017/18 ANNUAL AUDIT REPORT (PROPOSED)**

The Committee gave consideration to the proposed 2017/18 Annual Audit Report by Audit Scotland, which provided Audit opinions on the annual accounts and section 106 charities.

Decision:

The Audit and Scrutiny Committee agreed to note the contents of the proposed report.

(Reference: Proposed report by Audit Scotland, dated 25 September 2018, submitted)

8. **INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT**

The Committee gave consideration to a report providing information on the findings from the recent external quality assessment of the Council's Internal Audit service performed by FTF Audit.

Decision:

The Audit and Scrutiny Committee agreed to endorse the findings of the assessment including the agreed action plan.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted)

9. **ALCOHOL/DRUG DEPENDENCY SERVICES CORRESPONDENCE REVIEW**

The Committee gave consideration to a report presenting the findings of a review carried out by the Council's Internal Audit department about the arrangements for procurement, performance monitoring and governance relating to Argyll and Bute Alcohol and Drug Partnership (ADP).

Decision:

The Audit and Scrutiny Committee agreed to endorse the report.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted.)

10. **AUDITED ACCOUNTS 2017-18**

The Committee gave consideration to a report which presented the audited accounts and audit certificate for 2017-18.

Decision:

The Audit and Scrutiny Committee agreed to approve the audited accounts for signature.

(Reference: Report by Head of Strategic Finance, dated 25 September 2018, submitted)

11. **ACCOUNTS COMMISSION ANNUAL REPORT/STRATEGY AND ENGAGEMENT**

The Committee gave consideration to the 2017/18 Annual Report by the Accounts Commission, which included progress against their 2016/17 annual action plan. The 2018-2023 Strategy and annual action plan together with the 2018/19 Engagement strategy and plan were also considered.

Decision:

The Audit and Scrutiny Committee agreed to endorse the report and attached appendices.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted)

12. **TREASURY MANAGEMENT ANNUAL ASSURANCE REPORT**

The Committee gave consideration to a report outlining the arrangements for managing the Council's treasury activities.

Decision:

The Audit and Scrutiny Committee agreed to endorse the Treasury Management Annual Assurance report.

(Reference: Report by Head of Strategic Finance, dated 25 September 2018, submitted)

13. **LOCAL GOVERNMENT BENCHMARKING FRAMEWORK (LGBF) 2016/17: ASC MEMBERS' COMMENTS**

The Committee gave consideration to a report bringing forward comments received from members in relation to the Local Government Benchmarking Framework (LGBF) 2016/17 report.

Decision:

The Audit and Scrutiny Committee:

1. agreed to endorse the report;
2. agreed that the information contained in the Local Government Benchmarking Framework be used as a tool to inform the Committee's scrutiny process on their selected topics;
3. noted that the Performance and Improvement Team in IHR will be involved in scoping future scrutiny work; and
4. noted that the LGBF 2016/17 report is published on the Council Website and forms part of the Council's statutory Public Performance Reporting duty; and
5. requested that the Head of Improvement and HR engage with the Chief Officer of the Health and Social Care Partnership highlighting the absence of the looking forward commentary in three important indicators of adult care, and requested that this be provided as soon as possible.

(Reference: Report by Executive Director of Customer Services, dated 25 September 2018, submitted)

14. **NATIONAL FRAUD INITIATIVE IN SCOTLAND**

The Committee gave consideration to a report presenting Audit Scotland's National Fraud Initiative in Scotland (NFI) which provided some key messages in respect of NFI activity together with a self-appraisal checklist.

Decision:

The Audit and Scrutiny Committee agreed to endorse the report and the self-appraisal checklist.

(Reference: Report by Chief Internal Auditor, dated 25 September 2018, submitted)

15. **AUDIT & SCRUTINY COMMITTEE ANNUAL REPORT 2017/18**

The Committee gave consideration to a report providing an overview of their activity during the financial year 2017/18 and a summary of key developments since the commencement of 2018/19.

Decision:

The Audit and Scrutiny Committee agreed to endorse the Annual Report 2017/18.

(Reference: Report by Chair of the Audit and Scrutiny Committee, dated 25 September 2018, submitted)

16. **AUDIT AND SCRUTINY COMMITTEE WORKPLAN**

In order to facilitate forward planning of reports to the Audit and Scrutiny Committee Members considered the outline Audit Committee workplan.

Decision

The Committee noted the draft workplan.

(Reference: Audit Committee Workplan dated 25 September 2018, submitted)

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ARGYLL AND BUTE COUNCIL	AUDIT AND SCRUTINY COMMITTEE
STRATEGIC FINANCE	18 DECEMBER 2018

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. **EXECUTIVE SUMMARY**

1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 3 of 2018/19.

1.2 Core activities together with a progress update statement are shown below.

- **2018/19 Audit Plan progress**: The audit plan is currently on track.

- **Individual Audits undertaken**: Seven audits have been completed during the period. Of these audits, one is rated as high, five as substantial, and one as limited.

- **Continuous Monitoring Programme Testing**: A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.

- **Performance indicators**: Current status is green / on track.

ARGYLL AND BUTE COUNCIL   AUDIT AND SCRUTINY COMMITTEE

STRATEGIC FINANCE   18 DECEMBER 2018

INTERNAL AUDIT SUMMARY OF ACTIVITIES

2. INTRODUCTION

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 3 against a number of areas;

- 2018/19 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to review and endorse this report.

4. DETAIL

4.1 At the time of writing seven audits have been completed since the previous Committee in September 2018. Four audits are currently in progress and these will be reported to a future Committee. Four audits that were originally scheduled to be presented to this meeting (CareFirst, Off-payroll Working, Environmental Services and Waste Management) have been rescheduled to March's committee and one (Risk Management) scheduled for March has been brought forward to this Committee. This will not affect the completion of the overall audit plan by June 2019.

Audits Completed

- Marine Services (scope extended to all four ferry services)
- Housing Benefits and Council Tax Reduction
- Oban Airport
- LEADER
- Financial Planning
- VAT
- Risk Management

Audits in Progress

- CareFirst
- School Fund Governance
- Organisational Culture
- Environmental Services

4.2 In addition to those already in progress indicative audits planned for Quarter 4 2018/19 are:
- Performance Management

- Self-Directed Support
- Early Years Provision
- Off-Payroll Working
- Waste Management
- Land & Asset Disposal

4.3 **Additional updates from Quarter 3:**

- We have commenced the two scrutiny reviews agreed by Committee at the June 2018 meeting. For the Money Skills Argyll review three scrutiny panels have taken place and we are in the process of considering the need for a fourth. For the roads resurfacing review the planning panel met on 11 December 2018 and we are currently progressing the review.

- The CIA has been assisting Roads & Amenity Services with an examination of the financial position of a third sector partner involved in the delivery of waste collection / recycling services. This has been classified as 'consultancy' work and assigned to the 'Contingency' line in the 2018/19 internal audit budget.

- Due to extended absence within Strategic Finance the CIA has agreed to second a staff member from internal audit to provide cover and help the finance team meet regulatory deadlines. This secondment has been backfilled using agency staff. This has required the rescheduling of three audits from this December committee to the March 2019 committee (Waste Management, Off Payroll Working and CareFirst). The 2018/19 plan will still be delivered in its entirety by June 2019.

- The CIA has been involved in revising the Scottish Local Authorities Chief Internal Auditor's Group approach to external quality assessments. This is as part of a short life working group working alongside the CIAs of West Dunbartonshire Council, Dundee City Council and Western Isles Council.

- In accordance with the timetable for the National Fraud Initiative 2018/19 Exercise, data was to be extracted from various systems as at 30 September 2018 and uploaded to the NFI application from 8 October 2018 following quality checks to ensure the data met defined specifications. We can confirm that the data was successfully collected and submitted by the required timeframes. Matches will be available for review from 31 January 2019.

- CIA performed a half year review of client feedback surveys to assess feedback received to date and identify any areas for improvement. Feedback is extremely positive with the team averaging 96% against a target of 80% across the survey questions. Specific comments referred to the team's professionalism, good communication, having a 'beneficial review', and the overall experience of being audited being a positive one.

- CIA has established an informal information sharing agreement with the auditors of the H&SCP (also the auditors of NHS Highland) to ensure both parties are sighted on relevant audit reports and plans. The CIA will review H&SCP audit reports to determine whether there are significant issues which should be highlighted to the Audit and Scrutiny Committee and/or SMT.

- We have progressed the work identified to assess the Council's vulnerability to the weaknesses that led to a high profile fraud at Dundee City Council.

- A list of 18 interfaces between various council systems and the payables ledger system has been prepared. This summarises the data interfaced, frequency of the interface and the responsible officer. Documented reconciliation procedures have been requested from the officers and, where these are available, they have been provided. Walkthrough testing has been undertaken on six interfaces to confirm adherence to the provided procedures. Based on the work performed to date a decision has been taken to perform a more detailed review in 2019/20. This is reflected in the draft 2019/20 audit plan included as a separate agenda item.
- Logical access testing was carried out across 11 key financial systems. User access reports were requested and received from the various system administrators. Users on the lists with 'super user' access were extracted for each system and cross examined to ensure that users did not have super user access across various systems. This has not highlighted any material concerns however a decision has been taken to perform a more comprehensive system wide review of logical access in 2019/20. This is reflected in the draft 2019/20 audit plan included as a separate agenda item.

4.4 Our continuous monitoring programme is generally focused on transactional type activity. Standard audit tests are applied which are relevant to each auditable unit. Control design tests look at whether the controls in place adequately address the potential risk event.

4.5 A follow up process is in place whereby management are advised of continuous monitoring findings and, where appropriate, requested to take remedial actions. There are currently no outstanding follow-up points arising from previous quarters testing. Due to the volume of CM tests carried out the decision has been made to report by exception only. In the previous quarter continuous monitoring testing was carried out on Payroll, General Ledger, Budgeting, Creditors and Debtors. No material control weaknesses were identified.

4.6 A follow up process for national reports is in place whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. Table 2 below details the National Reports issued during quarter 3.

Table 2: Issue of National Reports in Quarter 3:

National Report	Issued To	Detail	Management response/ Action taken
Children and young people's mental health	• Chief Officer, Health and Social Care	A big increase in young people being referred to mental health services and longer waiting times are signs of a system under significant pressure, says a new report.	Report considered by Strategic Management Team on 10 December 2018
Withdrawal from the European Union	• Executive Director of Customer	Key audit issues that Audit Scotland think EU withdrawal presents for the	The report was shared with Customer Services who have provided

National Report	Issued To	Detail	Management response/ Action taken
	Services	public sector. Includes a series of questions that public bodies may want to ask themselves and sets out current plans to reflect EU withdrawal in Audit Scotland workplan.	responses to the areas relevant to them. A representative from Audit Scotland will present this report as a separate agenda item at this committee.

4.7 National Fraud Initiative (NFI). Data has successfully been uploaded to the NFI application by the due date of 8 October 2018. Data uploaded will be analysed along with data submitted by other authorities and organisations to produce a new set of matches to be reviewed from 31 January 2019. The table update on matches progressed will be reintroduced for March 2019 meetings onwards.

4.8 The table below details progress against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. Additional actions have been added in respect of self-assessment activity and making improvements to our internal documentation, report templates and refreshing the continuous monitoring programme.

Table 3: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Prepare SMT paper on minor areas for consideration from EQA review	EQA report highlighted some minor areas for consideration which the CIA has agreed to take to the SMT for discussion. These include: 1. Explicit reference of how internal audit contribute to best value 2. Consideration of how the Committee get their assurances over health and social care integration 3. Committee Chair input into CIA performance 4. CIA job description not recognising the IIA qualification	Complete	November 2018
Response to high profile fraud report	Internal Audit have developed additional test areas in order to minimise the risk of the Council being vulnerable to a similar fraud that occurred in another Scottish local authority. Progress has been made and will be concluded and reporting to the December meeting of the committee.	Complete	December 2018
Review format and content of annual internal audit plan	Review the format and content of the annual internal audit plan to more overtly reference an alignment between key risks faced by the Council and the planned audit	Complete	December 2018

Area For Improvement	Agreed Action	Progress Update	Timescale
	activities. In particular, where relevant, there will be a clear alignment between identified audit assignments and the Council's strategic and/or operational risk register and a three year projection to show proposed future coverage of key strategic risks. The 2019/20 plan will also provide a summary of the key risks which were addressed by the 2018/19 internal audit plan. Consideration should also be given to aligning reviews to service plan challenges as per the 2017-2020 service plans.		
Review format and content of the template audit reports	The template audit report will be revised to specifically reference the risks that were identified in the audit planning process and documented in the terms of reference.	On track	February 2019
Training and CPD	Two members of the team are currently training to gain further qualifications (CIPFA and IIA). Every member of the team are required to complete an annual Performance Review of Development which includes a development plan. 2018 PRDs were carried out in February 2018. Scrutiny training was carried out in August 2018.	On track	On-going

4.9   Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2018– 19 – FQ3 18/19 (as at October 2018)			
TEAM RESOURCES			
PRDs IA Team **G** ➡	TARGET	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	5	5	
Revenue Finance YTD Position Year End Outturn	BUDGET £113,175 £230,931	ACTUAL £121,040 £230,931	**G**
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Annual Risk Assurance Statements completed by Services	Target	On Track	**G** ➡
	Status	On Track	

Risks Management Overview report approved	Status	On Track	**G**	
	Target	On Track	➡	
Review of Strategic Risk register	Status	Complete	**G**	
	Target	Complete	⬆	
Annual Audit Plan approved by 31 March	Status	On Track	**G**	
	Target	On Track	➡	
% of audits completed in audit plan	Status	100%	**G**	
	Target	100%	➡	
% of audit recommendations accepted	Actual	100%	**G**	
	Target	100%	➡	
% customer satisfaction with audit reports	Actual	100%	**G**	
	Target	80%	➡	

5. CONCLUSION

5.1 The 2018/19 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control effectiveness.

6. IMPLICATIONS

6.1 Policy - Internal Audit continues to adopt a risk based approach to activity

6.2 Financial -None

6.3 Legal -None

6.4 HR - None

6.5 Equalities - None

6.6 Risk – None

6.7 Customer Service - None

Laurence Slavin
Chief Internal Auditor
18 December 2018

For further information contact:
Laurence Slavin, Chief Internal Auditor (01436 657694)

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ARGYLL AND BUTE COUNCIL   **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE   **18 DECEMBER 2018**

INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2018/2019

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1.   EXECUTIVE SUMMARY

1.1   There are seven audits being reported to the Audit and Scrutiny Committee. Table below is provided for information at the pre-agenda meeting.

1.2   The below table provides a summary of the conclusions for the audits performed. The full reports are included as appendices to this report.

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions
Marine Services (Ferries)	Substantial	0	3	1
Housing Benefit and Council Tax Reduction	Substantial	0	2	4
Oban Airport	Substantial	1	2	1
Financial Planning	Substantial	0	1	0
Leader	High	0	0	0
VAT	Limited	1	2	2
Risk Management	Substantial	1	0	0

1.3   Internal Audit provides a level of assurance upon completion of audit work. A definition for each assurance level is documented in each audit report.

2.   RECOMMENDATIONS

2.1   Audit and Scrutiny Committee to review and endorse this summary report and detail within each individual report.

3.   DETAIL

3.1   A high level summary of each completed audit report is noted below:

- **Marine Services (Ferries):** This audit has a substantial level of assurance as internal control, governance and the management of risk is sound. There is a comprehensive Marine Safety Management System in place which is audited by the Maritime and Coastguard Agency. Ferry fares and timetables are published on the Council website and on all site visits the correct fares were charged and the vessel operated to the published timetable. Three medium recommendations were made to implement a new ticketing system as planned to address current issues with ticket machines, to consider implementing a process to ensure additional sailings have been undertaken as stated and to remind all ferry crew of the requirement of wearing appropriate personal

protective equipment. One low recommendation has been made to ensure a second member of staff signs cash up log to evidence they were present whilst cash up was undertaken.

- **Housing Benefit and Council Tax Reduction:** This audit has a substantial level of assurance as internal control, governance and the management of risk is sound. There are comprehensive written procedures and detailed work flow maps in place which are easily accessible by all officers. Officers receive comprehensive training to ensure they are kept up-to-date with relevant changes and new staff are provided with a mixture of on-the-job training and formal training courses. Individual assessor performance and overall team performance is monitored and reported in Pyramid. There is a comprehensive quality assurance (QA) framework which is used to monitor performance on an ongoing basis. Two medium recommendations were made. One to consider a formal procedure for housing benefit payments and one to rectify technical issues which have meant that recovery of overpayment performance indicators have not been reported against since the Council migrated from Northgate to Civica in February 2018.

- **Oban Airport:** This audit has a substantial level of assurance as internal control, governance and the management of risk is sound. The audit covered 7 of the 21 operating instructions contained within the aerodrome operating manual and all were found to be operating satisfactorily with only minor issues identified. In addition the audit considered the governance arrangements in place between the Council and Scottish Fire and Rescue Service (SFRS) and assessed the Council's processes for verifying the accuracy of SFRS invoices. A service level agreement was found to be in place between the Council and SFRS however this was never signed and requires substantial revision. The audit also concluded that the Council and SFRS should agree a process to clear SFRS invoices currently on hold and the basis on which future invoices will be calculated and paid.

- **Financial Planning:** This audit has a substantial level of assurance as internal control, governance and the management of risk is sound. The role of the Council's Chief Financial Officer and the structure of Strategic Finance is appropriate to deliver strong financial management. Resource issues are being addressed through the implementation of a new structure to build resilience. This needs to be supported by the establishment of a programme of knowledge sharing, skills transfer and procedural guidance. Revenue budget preparation guidance has been prepared andfollowed by staff through regular engagement with budget holders. The Budget Outlook and Financial Strategy are linked to corporate outcomes, contain appropriate assumptions and scenarios, and are regularly reviewed, updated and presented to Policy and Resources Committees.

- **LEADER:** This audit has a high level of assurance as internal control, governance and the management of risk are at a high standard. Appropriate checklists and procedural documents are in place to ensure that all applications meet both the technical and financial requirements stipulated by the LEADER programme. All projects tested were fully compliant. Access to LEADER records is restricted to appropriate officers via logical access controls.

- **VAT:** This audit has a limited level of assurance meaning internal control, governance and the management of risk are displaying a general trend of

unacceptable residual risk. The Council has performed a lot of work to implement the VAT improvement plan created in 2015 and only one item from that plan is outstanding. However resource issues within Strategic Finance have meant various sample checks designed to provide assurance over VAT treatment have not been carried out for an extended period. Control weaknesses in relation to the creation of debtor charge codes and VAT coding for non-VAT registered suppliers were also identified.

- **Risk Management:** This audit has a substantial level of assurance as internal control, governance and the management of risk is sound. The Council has a comprehensive risk management manual which has been approved by the Strategic Management Team and the Policy and Resources Committee. Roles and responsibilities are identified and arrangements for updating the risk registers have been clearly set out and are being adhered to. The Manual clearly sets out a systematic approach for identifying and evaluating risks. However there are concerns over the management of operational risks in relation to social care services. There does not appear to be clarity over the responsibility for maintaining them or clear evidence that they are being reviewed and updated on a regular basis.

3. CONCLUSION

3.1 Management has accepted each of the reports submitted and have agreed responses and timescales in the respective action plans.

4. IMPLICATIONS

4.1 Policy - None

4.2 Financial - None

4.3 Legal - None

4.4 HR - None

4.5 Equalities - None

4.6 Risk - None

4.7 Customer Service – None

Laurence Slavin
Chief Internal Auditor
18 December 2018

For further information contact:
Laurence Slavin, Chief Internal Auditor, 01436 657694

APPENDICES
1. Marine Services audit report
2. Housing Benefit and Council Tax Reduction audit report
3. Oban Airport audit report
4. Financial Planning audit report

5. Leader audit report
6. VAT audit report
7. Risk Management audit report

Argyll and Bute Council

Internal Audit Report

November 2018

FINAL

Marine Services (Ferries)

Audit Opinion: **Substantial**

	High	Medium	Low
Number of Findings	0	3	1

Contents

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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 Marine Services (Ferries).

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. The Council currently operate four ferry services. These routes are:
   - Jura (Feolin) – Islay (Port Askaig)
   - Luing – Seil (Cuan)
   - Lismore (Point) – Port Appin
   - Easdale – Seil (Ellenabeich)

5. An internal audit of Marine Services carried out in June 2014 focused on the Luing and Easdale ferry service and originally the scope of this audit focused on the Jura ferry service. Following discussion with the Head of Roads and Amenity Services it was agreed there was value in extending the scope to cover all four routes.

6. Currently all four ferry services are operated by ASP Ship Management (ASP) on behalf of the Council. ASP operate them under two separate contracts. One for the Luing, Easdale and Lismore services and the other for the Islay/Jura service.

7. The Luing, Easdale and Lismore contract ended in October 2018 and following completion of the necessary audit of operations by the Maritime and Coastguard Agency (MCA) the transition of responsibility from ASP to the Council was effective from 31 October. The contract for the Islay/Jura service is due to end in February 2019.

8. The Council will then have full responsibility for the operation of the four services, including compliance with current maritime legislation and the duties of 'Designated Person Ashore' (DPA) which includes:

   - compliance with the company 'Safety Management System' on the basis of which the Document of Compliance was issued
   - making provision to ensure each ship is manned, equipped and maintained to operate in accordance with the Safety Management System and statutory requirements.

9. The ferry services currently operate at a loss to the Council. Income is generated from ticket sales (except on the Islay/Jura service where income goes directly to ASP) with grant aided expenditure (GAE) provided by central government. The average net annual expenditure over

the last six years is £1,176,578. The 2017/2018 GAE received by the Council from the Scottish Government was £675,000 leaving an average annual deficit of approximately £500,000.

10. Council ferries will require replacement over the next few years. The cumulative cost of replacing the passenger only ferries will be approximately £400,000 and the cumulative cost of replacing the car ferries is estimated at £3.4 million.

11. The 2018/19 approved budget for the ferry service is £1,218,170. There are 12 council and six ASP staff employed to run the services.

12. The Scottish Ferry Services Ferries Plan, published by the Scottish Government on 19 December 2012, sets out the strategic guidance for the provision of ferry services in Scotland over the period 2013 – 2022. This plan indicated a willingness for the Scottish Government to work with local authorities to take over the responsibility of ferry services. The Council has previously confirmed it was content to consider a transfer of responsibility, based on the principles set out in the Ferries Plan. The Scottish Government produced a six step process to be completed where a local authority wishes to transfer responsibility. The Council has completed all six stages and documentation is with the Scottish Government for consideration.

Scope

13. The scope of the audit was to review the adequacy of the control environment and compliance with any policies and procedures in place as outlined in the Terms of Reference issued to the Head of Roads and Amenity Services on 18 September 2018.

Risks

14. The risks considered throughout the audit were:
   - **D&I ORR26:** Existing ferry fleet (4 routes) may become not financially viable at the annual refit
   - **Audit Risk 1:** Financial loss for the Council due to the failure to ensure effective controls are in place for collection and recovery of any income due
   - **Audit Risk 2:** Reputational damage for the Council due to the failure to operate to agreed timetable and meet the expectations of customers
   - **Audit Risk 3:** Negative impact on service delivery due to the failure to adhere to Health and Safety requirements and other relevant maritime regulations

Audit Opinion

15. 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.

16. 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.

17. We have highlighted three medium priority recommendations and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
    - the new ticket system should be implemented as planned to address current ticketing / data transfer issues.
    - Management should consider implementing a process to ensure additional sailings have been undertaken as stated
    - Technical Officer should remind all ferry crew of the requirement and importance of wearing appropriate personal protective equipment
    - second member of staff should sign log to evidence they were present whilst cash up undertaken.

18. 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

19. 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 identified risk	Assessment	Summary Conclusion
1	There are effective controls in place over financial and administrative duties including revenue and service delivery.	Audit Risk 1 Audit Risk 2	Reasonable	Ferry fares and timetables are published on the Council website. On all site visits the correct fares were charged and the vessel operated to the published timetable. Tickets were not issued by Easdale ferry crew due to ongoing issues with ticket machines. New ticket machines are due to be operational on vessels by March 2019. There is a documented process is in place for the reconciliation and banking of cash from the vessels, however cash up logs are not signed by a secondary member of staff. Invoices from ASP ship management for additional sailings are approved for payment on a trust basis with no formal check to ensure additional sailings were operated.
2	The Council has appropriate controls in place to ensure Health and	Audit Risk 3	Substantial	There is a comprehensive Marine Safety Management System (MSMS) document available on the Council's website. Compliance with the MSMS document is

	Control Objective	Link to identified risk	Assessment	Summary Conclusion
	Safety requirements are adhered to.			audited by the Maritime and Coastguard Agency (MCA). The MCA issues a Safety Management Certificate on completion of the compliance audit and these are valid for a period of five years subject to a midterm audit. There were issues identified with crew not wearing appropriate personal protective equipment on the Lismore and Luing ferries.
3	The mitigating actions identified in the Council's operational risk register are being applied.	ORR26	Substantial	Mitigating action one relates to the progression of a vessel replacement strategy. Work on this had commenced but is in the very early stages, therefore this should be noted as a key action in the operation risk register with an assigned deadline rather than as a mitigating action. The Council are complying with mitigating actions two and three.

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

3. Detailed Findings

There are effective controls in place over financial and administrative duties including revenue and service delivery.

21. Ferry fares and timetables are published on the Council website. On all site visits the correct fares were charged and the vessel operated to the published timetable.

22. Tickets were issued on all vessels apart from Easdale. The Technical Officer - Ferries explained that the current ticket machines are not waterproof and Easdale ferry had required two replacement ticket machines due to water damage in the last year. As this was having a cost impact, the agreement was that the ticket machine would remain in the ferry shed and the operatives would add passenger details to machine retrospectively. This is a temporary fix whilst they await the new ticket machines, due to be operational by March 2019.

23. Ticket data for each of the vessels is currently held within the STORM system. In order to download the data from the machines, the Technical Officer has to physically remove the ticket machines from each of the vessels and transport to the Oban Office to download the data onto a computer. This process is generally carried out once a quarter, whilst the machines are away from the vessels a manual workaround is put in place.

24. On occasions data has been lost due to technical issues with the data transfer which cannot be resolved due to unsupported obsolete ticketing system. In these instances the passenger data is lost and the Council will lose out on potential revenue from SPT concessionary claims.

25. The new ticketing system, due to be operational on the vessels by March 2019, will transfer data from the system electronically to a local server, which means the physical transfer of the machines will no longer be required. The information will also be transferred to the server on a daily basis.

Action Plan 1

26. The Islay/Jura route is currently operated by ASP ship management. The contract covers the operation of scheduled sailings and additional bookable sailings in the evening. Bookable sailings at 6.15am were not included in the initial contract with ASP but were added to the timetable at the request of the Council so the cost of running the vessels for these additional sailings are charged back to the Council via monthly invoices.

27. Invoices from ASP are approved for payment on a trust basis, no formal check is undertaken to ensure the additional sailings operated.

Action Plan 2

28. A documented process is in place for the reconciliation and banking of cash from the vessels. There are three members of staff in the Oban office who are able to do the cash up process. The current process is that two members of staff require to be in the office whilst the cash up is taking place. The member of staff who completes the cash up signs a log to confirm they have completed it, however, the secondary member of staff does not sign to evidence they were present when the cash up was carried out.

Action Plan 4

The Council has appropriate controls in place to ensure Health and Safety requirements are adhered to.

29. The Port Marine Safety Code (PMSC) requires that the Council, as a Statutory Harbour Authority, should publish a MSMS document. The purpose of this document is to describe, at a high level, the overall framework for the management and co-ordination of marine activities necessary for the effective facilitation of navigational safety.

30. There is a comprehensive MSMS available on the Council's website. Compliance with the MSMS is audited by the MCA. The MCA issues a Safety Management Certificate on completion of the compliance audit and these are valid for a period of five years subject to a midterm audit.

31. On the site visits, the slipways and surrounding areas were found to be safe, ropes were secured on embarking and disembarking and appropriate safety instructions were displayed.

32. The personal protective equipment (PPE) required to be worn by ferry crew was confirmed by the Technical Officer prior to site visits. The required PPE is as follows:
    - waterproof jacket and trousers for winter/cold weather use (Fladda suits which have built in buoyancy)
    - safety boots
    - safety Wellington boots
    - life jacket
    - fleece jackets and sweat shirts

Crew on the Easdale, Luing and Jura ferries were wearing appropriate PPE, however crew on the Lismore ferry were not wearing appropriate PPE.

Action Plan 3

The mitigating actions identified in the Council's operational risk register are being applied.

Mitigating action 1 - Progress a vessel replacement strategy focussing on the two small passenger only vessels.

33. The Technical Officer – Ferries is in the very early stages of preparing a vessel replacement strategy. The indicative timescale for the strategy is three years.

34. This should be detailed on the risk register as a key action with an assigned deadline rather than a mitigating action. This has been highlight to officers and is not raised as an action plan point as it is not deemed significant.

Mitigating action 2 - Review condition of vessels ensuring they are fit for purpose and meet MCA requirements whilst also making financial provision for replacement.

35. Annual safety checks are carried out on each vessel. The completion of these checks is reviewed as part of the compliance audit undertaken by the MCA. If we did not comply with this the license to operate would be removed.

Mitigating action 3 - All vessels are subject to dry docking and inspection/refit.

36. The MSMS states that the ferries are put in dry-dock every year due to regulation. The ship manager prepares a dry dock specification and this is audited by the MCA on their compliance check.
    - Cuan/Luing – Carried out in May 2018
    - Easdale – Carried out in August 2018
    - Lismore – Carried out in September 2018

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Issues with ticket machines** Tickets were not issued to passengers on the Easdale Vessel due to ongoing issues with ticket machines. There have also be instances where the data in the ticket machines has been lost due to technical issues with the data transfer from the host terminal.	Issues with the ticket machines may result in inaccuracies in passenger numbers and/or loss of data leading to loss of potential income from SPT grant claims.	New ticket system, due to be operational on all vessels by March 2019, will address current ticketing / data issues.	Technical Officer (Ferries, Development & Infrastructure Services) 31 March 2019
Medium	2	**Approval of ASP additional sailing invoices** Invoices from ASP ship management for additional sailings are approved for payment on a trust basis with no formal check to ensure additional sailings were operated.	Failure to ensure additional sailings have been undertaken prior to approval of invoice may result in the Council paying for services they are not liable for.	New ticketing system will have on-line pre booking functionality which will provide audit trail of additional sailings. Sailing record audit to be carried out during DPA visits to vessel in the run up to ASP contract end date.	Technical Officer (Ferries, Development & Infrastructure Services) 31 December 2018
Medium	3	**Personal Protective Equipment** Crew on the Easdale, Luing and Jura ferries were wearing appropriate PPE, however crew on the Lismore ferry were not wearing appropriate PPE.	Failure to ensure staff are wearing appropriate personal protective equipment may result in higher risk of injury to ferry crew members.	Technical Officer will reinforce requirement to wear appropriate PPE to all ferry staff.	Technical Officer (Ferries, Development & Infrastructure Services) 30 November 2018

Low	4	**Secondary authorisation of cash up** There is a documented process is in place for the reconciliation and banking of cash from the vessels, which requires two member of staff to be in the office whilst the cash up is undertaken. The member of staff who completes the cash up signs a log to confirm they have completed it, however, the secondary member of staff does not sign to evidence they were present when the cash up was carried out.	Failure to evidence that a secondary member of staff was present when the cash up was undertaken may result in staff being open to scrutiny or question and may increase the risk of misappropriation of funds.	Second member of staff to sign log to evidence that they were present whilst cash up undertaken.	Technical Officer (Ferries, Development & Infrastructure Services) Area Business Support Officer, Development & Infrastructure Services 30 November 2018

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.

Argyll and Bute Council – Internal Audit Report – Marine Services (Ferries), November 2018

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.

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Argyll and Bute Council

Internal Audit Report

November 2018

FINAL

Housing Benefit and Council Tax Reduction

Audit Opinion: *Substantial*

	High	Medium	Low
Number of Findings	*0*	*2*	*2*

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Contents

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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 Housing Benefit (HB) and Council Tax Reduction (CTR).

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. Residents of Argyll and Bute can apply for HB and/or CTR if they are unemployed or on low income, and need financial help to pay all or part of their rent or council tax. In addition factors such as disability, student and retirement status may be relevant. The Council's 2016/17 Annual Report highlighted key successes in the improvement of processing new claims, changes in circumstances and processing accuracy. The 2016/17 HB & CTR Subsidy report states that £21m of HB and £5m of CTR was paid to 7,512 claimants.

5. The Council is subject to Audit Scotland's HB risk assessment programme which is applied to all 32 Scottish councils on a cyclical basis. The Council was assessed in 2011 and 2014. The 2011 report identified 17 areas for improvement and the 2014 report confirmed that significant progress had been made against those actions with 13 fully completed, 2 on going and 2 outstanding. It is not currently clear when the Council will be subject to a further review however, as four years have elapsed since the last review, it is considered likely that one will be fairly imminent.

6. The Council use the Civica OpenRevenue (Civica) system to process HB & CTR claims. Civica replaced Northgate as the Council's benefit system in February 2018.

Scope

7. The scope of the audit was to assess controls applied in the provision of benefits provided by the Council.

8. We reviewed the governance and control framework around the processing of applications for HB & CTR and the processes and procedures in place to assess the effective operation of controls in practice and compliance with legal/regulatory requirements.

Audit Opinion

9. 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.

10. 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

11. We have highlighted two medium priority recommendations and two low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- benefit payment procedures should be more formalised
- technical issues preventing the monitoring of overpayment recovery rates should be rectified
- a consolidated training plan should be developed
- officers should sign their annual declaration form.

12. 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

13. 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	Council officers are supported by the provision of appropriate support, training and system documentation	Substantial	There are comprehensive written procedures and detailed work flow maps in place which are easily accessible by all officers. Officers receive comprehensive training however this could be strengthened further by consolidating individual training plans into a service wide one. Officers are required to make an annual declaration that they will abide by instructions relating to working practices. There was no evidence to confirm that all officers have signed this annual declaration.
2	Benefit applications and changes of circumstances are correctly assessed in line with supporting documentation, appropriate regulations, and processed in a timely manner.	Substantial	There are detailed work flow maps which clearly show the various stages that officers should follow when processing HB and CTR claims. There are a range of initiatives in place to make claimants aware of the importance of advising the Council of any changes of circumstances.

3	Benefit payments are correctly calculated and promptly paid to the claimant.	Reasonable	There is no formal procedure for the HB payment process. Informal notes compiled when the Council used Northgate have been manually updated to reflect the revised process using Civica however there would be benefit in collating these into a more formal procedure or workflow process within Comino. A payment file interfaced from Civica to Oracle is subject to reconciliation by an appropriate officer. Changes to HB and CTR allowances are uploaded in Civica and subject to appropriate testing.
4	Benefit overpayments are identified and recovery action implemented in a timely manner.	Substantial	There is a comprehensive overpayment procedure and responsibility for recovering overpayment is clearly established. Key performance indicators have been established for overpayment recovery however these have not been reported on since February 2018 due to technical issues.
5	The Council has appropriate performance reporting to monitor and report performance against benefit service targets	Substantial	Individual assessor performance and overall team performance is monitored and reported in Pyramid. Performance is discussed and minuted at regular management meetings.
6	Benefit processing is subject to an appropriate quality assurance framework.	High	There is a comprehensive quality assurance (QA) framework which is used to monitor performance on an ongoing basis.
7	Information is accessed and managed in accordance with Council policy and General Data Protection Regulations (GDPR) requirements	Substantial	Records are maintained on a shared drive and on Comino. Access to records is restricted to appropriate officers and information is managed in compliance with GDPR. There is a business continuity plan in place which was last reviewed in April 2013.

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

3. Detailed Findings

Council officers are supported by the provision of appropriate support, training and system documentation

15. Revenue and benefits officers are provided with appropriate training to ensure they are kept up-to-date with relevant changes and new staff are provided with a mixture of on-the-job training and formal training courses. Training records provided confirmed that staff have received training on appropriate topics such as overpayments and changes in circumstances.

16. Adequate arrangements are in place to ensure that officers receive regular updates on legislative changes that affect claimants' entitlement to HB and CTR.

Argyll and Bute Council – Internal Audit Report – Housing Benefit and Council Tax Reduction, November 2018

17. Where officers require further training the revenue and benefits training officer will engage with them to identify any underlying issues and, where appropriate, develop a personalised performance plan detailing:

- the required performance improvements
- the support/training that will be provided
- the timescale for improvement
- how progress will be monitored and reviewed.

18. Whilst there is extensive training in place, and a clear commitment to developing officers, we feel this could be further strengthened by developing a more comprehensive system for recording training. There is currently a training plan for each officer however these are not consolidated into a service wide plan. A consolidated plan would make it easier to identify service wide training gaps and help reduce the number of required training sessions.

Action Plan 3

19. Comprehensive written procedures, easily accessible by all officers, have been established. These help facilitate the training of new and existing officers and provide management with assurance over correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

20. There are detailed work flow maps embedded in the Comino electronic documentation system (Comino) which officers can access. These clearly show the various stages that officers should follow when processing HB and CTR.

21. There is a database detailing all officers with access to Civica and their disclosed family and friends. Officers are blocked from accessing the benefit records of family and friends.

22. Revenue and benefits officers are required to make an annual declaration confirming they have read, and abide by, instructions relating to:

- inappropriate access to records
- accessing Civica using another officer's user account
- accessing their own benefit records
- disclosure of interest in relation to relatives and friends.

There was no evidence to confirm that all staff had signed the annual declaration.

Action Plan 4

Benefit applications and changes of circumstances are correctly assessed in line with supporting documentation, appropriate regulations, and processed in a timely manner

23. Changes of circumstances can result from changes to the claimant's income, household composition, or changes in legislation. Notifications may be directly from the claimant or other government agencies.

24. HB and CTR claims and supporting documentation are scanned and held within Comino which allows for the workloads to be allocated across the benefits team. The claims are processed in Civica which calculates any entitlement based on the claimant's income and personal circumstances.

25. As per paragraph 20 officers can refer to the process maps embedded in Comino when processing claims. There is also a documented procedure for officers to follow if a claim does not include all the required information to enable a benefit assessment to take place.

26. All claim forms, leaflets and documentation sent out includes references to how changes of circumstances should be reported including which changes are relevant. In addition, the Council website provides comprehensive guidance on HB and CTR and a facility to notify the Council of changes of circumstance.

Benefit payments are correctly calculated and promptly paid to the claimant

27. There is no formal procedure document that sets out the HB payment process. There are informal notes on the process which were compiled when the Council used Northgate and these have been manually updated to reflect the revised process using Civica, however consideration should be given to creating a more formal procedure or a Comino workflow map.

Action Plan 1

28. The vast majority of benefit payments are made by BACS. A payment run is generated in Civica with a payment file subsequently exported to the Council's financial system Oracle. Reconciliations are carried out to ensure the payments generated by Civica are accurately interfaced into Oracle and payments greater than £1,500 are investigated to ensure that they are legitimate.

29. There is appropriate segregation between officers responsible for processing payments and those involved in the processing of benefit claims.

30. Changes to standard HB and CTR allowances are provided by Civica and are electronically uploaded into the system. "Test" runs are carried out to ensure that updates have been correctly handled and these are reviewed by management.

Benefit overpayments are identified and recovery action implemented in a timely manner

31. Benefit overpayments can occur when a claimant's circumstances change and there is a delay in the claimant informing the Council. When the Council are informed, the change is processed and entitlement is recalculated. If the change results in a reduction in entitlement for a benefit period that has already been paid there will be an overpayment which needs to be recovered from the claimant.

32. The recovery of overpayments is undertaken by the HB Payment and Overpayment team. Their remit primarily involves making HB and Discretionary Housing Payments to claimants, and recovering overpayments in relation to both. This includes agreeing instalment plans, temporary arrangements to reduce instalments and the ongoing monitoring of agreed arrangements.

33. There is an overpayments procedure which is designed to ensure a fair and consistent approach to recovering overpayments, provides a clear debt recovery strategy, and seeks to minimise loss to the Council. The Strategic Management Team approved the procedure in February 2017.

34. Performance indicators have been established in relation to overpayments which focus on the percentage of overpayments recovered in year for all financial years and the percentage recovered in year for the current financial year. However technical issues have meant that these indicators have not been reported since the Council migrated from Northgate to Civica in February 2018. Work is underway to address these issues.

The Council has appropriate performance reporting to monitor and report performance against benefit service targets

35. A target of 21 days for processing new benefit claims and six days for processing changes of circumstances has been established. Performance against these targets is monitored and recorded in the Pyramid performance management system.

36. For the previous seven months the 21 day target to process new benefit claims has been missed however there is a clear pattern of improvement since Civica was implemented. This was predominantly due to preparing for, and adjusting to, the Civica system, staff absence and the retirement of a team leader. Given there has been a substantial change for the benefits team to accommodate, it is reasonable to expect a temporary reduction in performance and it is encouraging that performance has been steadily improving since April 2018.

37. Benefit assessors are measured against a series of performance measures. In particular:

- average number of days to process a claim
- number of decisions made per day
- accuracy of each decision.

38. There are regular management meetings between benefit managers where performance reports are discussed. These meetings are formally minuted.

39. Benefits use the Council complaints process to handle complaints. All complaints are recorded on a log and forwarded to the relevant team leader. A review of the log noted that all complaints are handled promptly and that, in 2017, 13 complaints were received of which two were upheld, one partly upheld and the remaining ten dismissed.

Benefit processing is subject to an appropriate quality assurance framework

40. To improve processing time and accuracy of processing, a QA framework was implemented in July 2015 (and reviewed in October 2016) with performance monitored on an ongoing basis. An accuracy target of 95% has been set for all claims processed.

41. The QA officer reviews a sample of processed claims and sends an email to the relevant officer to either acknowledge the claim has been checked with no errors identified or to advise them of the error and the necessary corrective action. A copy of the email is also sent to their team leader. Where an officer doesn't meet the performance target development action is taken to improve the officer's performance.

42. The Benefits Performance and Development manager receives a monthly report from the QA officer detailing the checks carried out. The September 2018 report confirmed the checks carried out were compliant with the QA framework and that for claims checked for the period April to September 2018 the cumulative error rate was 2.94%.

Information is accessed and managed in accordance with Council policy and GDPR requirements

43. Records are maintained on a shared drive and on Comino. Access to these records is restricted to appropriate officers via logical access controls

44. Benefits documentation is compliant with GDPR requirements including the provision of a privacy notice in benefit application forms.

45. Revenue and Benefits have a Business Continuity Plan. The plan covers the risks to staff availability and information technology systems in the event of a service disruption and the measures that the Council would take to mitigate the risks. The plan was last reviewed in April 2013. Internal audit will be conducting a review of the Council's approach to business continuity plans as part of their 2019/20 audit plan. Consequently no action plan point has been raised in this report.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Benefit Payment Procedure Note** There is no formal procedure for the HB payment process. Informal notes compiled when the Council used Northgate have been manually updated to reflect the revised process using Civica however consideration should be given to either a more formal procedure or a Comino workflow map.	Loss of skill and knowledge in the event that key officers leave or are unavailable for an extended period.	A more formal procedure note or Comino workflow map will be created by the payment assistant and reviewed by the overpayments officer.	Payment Assistant Overpayments Officer 28 February 2019
Medium	2	**Recovery of Overpayment Performance Monitoring** Performance indicators have been established in relation to the recovery of overpayments however technical issues have meant these indicators have not been reported against since the Council migrated from Northgate to Civica in April 2018.	Failure to meet performance targets may not be identified and reported.	Technical issues are currently being addressed.	Overpayments Officer 31 December 2018
Low	3	**Consolidated Training Plan** There is currently a training plan for each officer however these are not consolidated into a service wide plan. A consolidated plan would make it easier to identify service wide training gaps and help reduce the number of required training sessions.	Training may not be delivered in the most efficient and effective manner.	The training officer will consolidate the existing plans into a service wide plan.	Benefits Training Officer 31 March 2019

	4	**Annual Staff Declaration** Revenue and benefits officers are required to make an annual declaration confirming they have read, and abide by, instructions relating to working practices. There was no evidence to confirm that all officers have signed this annual declaration.	Non-compliance with agreed practice and a lack of accountability in the event of a breach.	Control spreadsheet to be setup and implemented for the new annual declaration forms to be issued in March 2019.	Systems Administrator Revenues/Benefits 31 March 2019
Low					

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.

Argyll and Bute Council – Internal Audit Report – Housing Benefit and Council Tax Reduction, November 2018

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.

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Argyll & Bute Council - Internal Audit Report

November 2018

Final

Oban Airport

Audit Opinion: Substantial

	High	Medium	Low
Number of Findings	1	2	1

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Contents

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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 & Bute Council's (the Council) system of internal control at Oban airport (the Airport).

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 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. Scheduled services operate from the Airport to Coll, Colonsay, Islay and Tiree. They also operate scholar flights for island school children. Additionally, the airport deals with chartered traffic and military flights as well as general aviation traffic such as medevacs, training flights and scenic tours by private operators.

5. Oban Airport Aerodrome Manual (the Manual) has been produced to satisfy the requirements of the UK Civil Aviation Authority (CAA), Health and Safety legislation and the Air Navigation Order. The Manual provides information about the airport, its systems for managing safety and the required operational procedures. In addition there is an Airport Rescue & Fire Fighting Service (RFFS) manual which provides guidance on the agreed policy and procedures designed to achieve an effective and efficient RFFS.

Scope

6. We provide assurance over compliance with the 21 airport operating instructions (AOIs) established by the Manual and the further procedures established by the RFFS manual. Our approach is to provide this assurance over a five year cyclical basis.

7. In 2018/19 the audit focused on assessing compliance with:

    - AOI1 - Airside Access
    - AOI2 - Generic Airside Safety
    - AOI3 - Airside Driving
    - AOI4 - Vehicles and Equipment Airside
    - AOI5 - Aircraft and Passenger handling.
    - AOI6 - Foreign Object Damage , Cleanliness and Sweeping
    - AOI7 - Movement Area Inspection and Monitoring

8. We were notified of an issue between the Council and Scottish Fire & Rescue (SFRS) relating to the amounts SFRS have billed the Council for the provision of fire services at Coll and Colonsay airports. As part of the audit we also:

    - considered the governance arrangements in place between the Council and SFRS

- assessed the Council's processes for verifying the accuracy of SFRS invoices.

Audit Opinion

9. 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.

10. Our overall audit opinion for this audit is that we can take a **substantial** level of assurance. This means 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

11. We have highlighted one high, two medium and one low recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- the Service Level Agreement (SLA) between the Council and SFRS should be revised to reflect current operation and signed by both parties
- the Council and SFRS should agree a process to clear the invoices currently on hold and the basis on which future invoices will be calculated and paid
- training records should be maintained for airport personnel
- traffic incidents should be recorded consistently.

12. 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.

Objectives and Summary Assessment

13. 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	The Manual, setting out the operational procedures of the airport, is appropriate and accessible to all relevant staff.	High	The Manual is comprehensive and available to all relevant airport personnel on the Council HUB site as well as a copy being available at the airport reception desk.
2	Access to the aircraft movement area is restricted to appropriate and competent personnel.	Reasonable	Access to the aircraft movement area is restricted to appropriate personnel. Training is carried out on an ongoing basis however training records are not comprehensively maintained.

3	Appropriate action is being taken to minimise airside hazards.	High	The Manual provides a comprehensive list of potential hazards that can occur in regard to both airport and apron activity and outlines what airport personnel should do to minimise airside hazards. Training on minimising airside hazards is carried out on an ongoing basis.
4	Airside drivers are appropriately trained and comply with the driving procedures established by the Manual.	Substantial	All traffic incidents and all accidents are recorded within the "Redkite" database with hard copies available for review as required by the Manual. There was an inconsistent approach to recording traffic incidents.
5	Airside vehicles and equipment are properly maintained, used only by appropriate personnel and appropriately insured.	High	All airside vehicles are insured under the Council's overarching vehicle insurance policy. Maintenance records confirmed that vehicles are being appropriately maintained and meet VOSA standards where applicable.
6	Procedures for parking and manoeuvring aircraft are consistent with the requirements of the Manual.	High	Parking and manoeuvring procedures are comprehensive and consistent with the requirements of the Manual. Equipment available on site for parking and manoeuvring of aircraft was appropriate.
7	Appropriate measures are in place to minimise the risk of 'foreign object debris' being on aircraft movement areas.	High	The Manual outlines the Council policy of sweeping the "movement" area to minimise the risk of foreign object debris and there are clear procedures to ensure compliance. The policy is being complied with except where adverse weather prevents sweeping being carried out.
8	Inspections of the airfield facilities and infrastructure are carried out in compliance with the Manual.	High	Airfield inspections are carried out in compliance with the Manual and the timeframes stipulated.
9	There are appropriate governance arrangements in place to manage the provision of fire services by SFRS.	Reasonable	There is an SLA between the Council and SFRS however it requires improvement and has never been formally signed off. The Council has actively engaged with SFRS on the ongoing issue however there is no resolution to the Council's primary concern that the hours charged are excessive.
10	SFRS invoices are only paid on the basis of appropriate supporting documentation.	Limited	The Council has legitimate queries regarding the supporting documentation supplied by SFRS and has withheld payment of SFRS invoices until the issue can be resolved. The Council and SFRS should agree a process to clear the invoices currently on hold and the basis on which future invoices will be calculated and paid.

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

2. Detailed Findings

The Manual, setting out the operational procedures of the airport, is appropriate and accessible to all relevant staff

15. The Manual is available to all relevant airport personnel via the Council HUB site as well as a copy being available at the airport reception desk. It is comprehensive with each section detailing:

- the policy in regard to complying with relevant rules and/or regulations
- procedures to ensure compliance with relevant guidance/regulations
- appropriate monitoring to be undertaken
- roles and responsibilities.

16. The Manual is reviewed every October with the last review conducted in October 2017.

17. The Airport is regularly audited by the CAA. The last one, in November 2017, highlighted five issues, a response to which was provided to the CAA within the prescribed timescale.

Access to the aircraft movement area is restricted to appropriate and competent personnel

18. The Manual states that all personnel at the airport must be:

- over 16 years of age
- appropriately training
- approved by the station manager.

19. All airside personnel undergo induction training which includes an overview of the various operations within the airport including access to the aircraft movement area. All airport employees are over 16 years of age and have been approved by the station manager.

20. Training in airside safety, and the other areas covered by this audit, is carried out on an ongoing basis however the training is not currently recorded.

Action Plan 3

Appropriate action is being taken to minimise airside hazards

21. The Manual sets out a list of potential hazards that can occur in regard to airport and apron activity. The list includes hazards to aircraft, vehicles and persons. The Manual also outlines the actions airport personnel should, and should not, do to minimise airside hazards.

22. During the audit an incoming flight was observed during take-off and landing. It was confirmed that airport personnel complied with the guidance as stipulated within the Manual.

Airside drivers are appropriately trained and comply with the driving procedures established by the manual

23. All traffic incidents, accidents and accidents involving aircraft, however minor, must be reported immediately to the Duty Aerodrome Flight Information Officer (AFISO) and recorded within the "Redkite" database with hard copies available for review. A review of the previous 30 incidents

confirmed that incident reports are completed and e-mailed to the station manager and the Strategic Transport and Infrastructure manager.

24. A criticality assessment is carried out on "serious" traffic incidents (i.e. 1 for very high to 4 for low) and recorded on the incident report. For the incidents reviewed there was an inconsistent approach to recording traffic incidents. 24 of the 30 incidents reviewed had a criticality score or were deemed 'not applicable' for assessment, however the remaining six incidents had no designation meaning it wasn't clear whether an assessment should have been carried out or not.

Action Plan 4

Airside vehicles and equipment are properly maintained, used only by appropriate personnel and appropriately insured.

25. The Manual requires all vehicles operating airside to have appropriate insurance, maintenance and inspection records and meet VOSA standards.

26. All vehicles stationed at the Airport are fully insured under the Council's overarching insurance policy.

27. The Council's fleet service are responsible for maintaining all airport based council vehicles and have specific service patterns for each vehicle type. Maintenance records confirmed that vehicles are maintained per the agreed schedule and meet VOSA standards where applicable.

Procedures for parking and manoeuvring aircraft are consistent with the requirements of the Manual

28. The Manual states that personnel marshalling aircraft must be approved by the station manager, use orange bats by day and illuminated wands during reduced daylight and be issued with appropriate equipment. A review of available equipment on site confirmed that appropriate equipment is held on vehicles and in the crew room.

Appropriate measures are in place to minimise the risk of 'foreign object debris' being on aircraft movement areas

29. The Manual requires the Airport's 'movement area' to be swept at least once per week using, primarily, the FODBOSS (cleaning machine for runways). It further sets out the procedures for carrying out the sweeping. An inspection/sweeping regime has been established with records of all sweepings recorded in the navigator database system.

30. A review of sweeping records between January 2018 and September 2018 confirmed sweepings were carried out for 30 of the 37 weeks reviewed either weekly or multiple times per week. Where sweeping operations had not been carried out in the prescribed timeframe this was due to adverse weather conditions.

Inspections of the airfield facilities and infrastructure are carried out in compliance with the Manual.

31. The Manual requires the following airfield inspections to be carried out:

- daily airfield inspection by airport personnel
- weekly inspection by the crew commander
- monthly inspection by the station manager
- six monthly inspection by the strategic transport manager.

32. Records confirmed that runway inspections have been carried out by the relevant personnel and in the timeframes stipulated in the manual. .

3. Scottish Fire & Rescue (SFRS) Issue

Background

33. The Council operate two airports on the islands of Coll and Colonsay which are served by a timetabled air service from Oban airport. The service is subsidised by the Council as it is considered vital to the ongoing economic and social cohesion of the islands. The service provides reliable transport for island based secondary school pupils to get to and from the school in Oban and is an essential transport link for residents and businesses on the islands.

34. In 2007 the Council entered into a SLA with SFRS whereby SFRS volunteer firefighters on Coll and Colonsay undertook duties to provide fire and rescue cover for agreed types of flight. The SLA stipulated the hourly rate the Council would pay however it didn't refer to the expected number of hours chargeable or the basis for the hours charged. The SLA has not been signed.

35. In late 2016 the Council carried out an analysis to determine the expected annual charge by SFRS for Coll and Colonsay airports. This considered:

- total number of flights per year
- total expected cover required per year (based on flight schedules)
- estimated annual cost of cover required (based on rate per hour and hours required)
- estimated annual training cost.

36. In January 2017 the Council's Head of Economic Development and Strategic Transportation issued a letter to the SFRS Director of Finance requesting that, going forward, SFRS provide a monthly invoice in arrears based upon 1.5 hours per firefighter in a three man team for each timetabled flight, inclusive of travel time, and that invoices be substantiated with supporting evidence. It also confirmed that time and travel for airport training provided by the Council would be paid. On 31 January 2017 the SFRS Director of Finance replied and agreed there was a need to formalise an agreement that meets the needs of all parties.

37. No further progress was made to resolve the issue. Following repeated requests the Council received time recordings for the invoices. The Council cross checked the calculation of the expected hours to be charged against SFRS time recordings which highlighted a material difference. In May 2017, the Council decided to place all SFRS invoices on hold.

38. SFRS met the Council in February 2018 and agreed to undertake a full investigation. At this time the Council cross checked the calculation of the expected hours to be charged by SFRS against the airport's flight logs which detail the arrival and departure of each flight. This highlighted a similar discrepancy to that detailed at paragraph 37.

39. Further correspondence has taken place between the Council and SFRS to try and resolve the issue however, at the time this audit was carried out, no resolution has been achieved. SFRS are continuing to provide the fire and rescue cover.

40. As at October 2018 the total value of invoices on hold is £101,536.

There are appropriate governance arrangements in place to manage the provision of fire services by Scottish Fire & Rescue

41. In March 2014 a meeting between the Council and SFRS highlighted a number of areas where the draft SLA required improvement. The meeting minute summarised these issues which ranged from how workable certain terms were from an operational perspective (i.e. the ability to 'nominate' a volunteer, arrangements for vehicle maintenance, having a nominated liaison officer, and the provision of appropriate equipment) to issues around payment arrangements and dealing with disputes or contract variations. A revised SLA has never been prepared.

Action Plan 1

42. A review of the work carried out by the Council, and the correspondence between the Council and SFRS, provided assurance that the Council are taking steps to seek a resolution with SFRS.

Scottish Fire & Rescue invoices are only paid on the basis of appropriate supporting documentation

43. As per paragraph 37 all invoices from SFRS are currently on hold and have been since May 2017. Agreement between the Council and SFRS to resolve the issue is urgently required and should include a clear process for agreeing or amending all invoices on hold and the basis on which future invoices will be calculated and paid.

Action Plan 2

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	**Service Level Agreement with SFRS** The SLA between the Council and SFRS, first drafted in 2007, has never been formally signed off. It needs to be reviewed to ensure it reflect currents operation and signed by both parties.	Failure to agree an up to date SLA may result in disputes over service provision.	A meeting has taken place and further meetings arranged with SFR to explore options to update SLA.	Strategic Transportation Manager 15 March 2019
Medium	2	**Processing SFRS Invoices** All invoices from SFRS are currently on hold and have been since May 2017. Agreement between the Council and SFRS to resolve the issue is urgently required and should include a clear process for agreeing or amending all invoices on hold and the basis on which future invoices will be calculated and paid.	Failure to have an agreed process for charging may lead to the withdrawal of service provision.	A meeting has taken place and further meetings arranged with SFR. ABC has arranged for airport logbooks to be sent to SFR to allow them to calculate actual hours logged in reconciliation of invoices on hold. Currently exploring whether new posts can be created for fire cover provision on the islands to resolve the ongoing issue.	Strategic Transportation Manager 15 March 2019
Medium	3	**Maintaining Training Records** Staff training is carried out on a regular basis however this is not formally recorded.	Staff may not be receiving the appropriate training to allow them to carry out their duties effectively.	The training refers to the airside safety elements during continuation training. This is addressed with the revised training programme due out soon	Station Manager 1 January 2019

	4	**Traffic Incident Reports** Criticality assessments, or the need for one, are not always recorded for traffic incidents.	Failure to record traffic incidents consistently may lead to non-compliance with the Manual.	An additional Not Applicable (N/A) option has been added.	Station Manager Completed
Low					

Argyll & Bute Council – Internal Audit Report – Oban Airport, November 2018

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.

Argyll & Bute Council – Internal Audit Report – Oban Airport, November 2018

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.

Argyll & Bute Council – Internal Audit Report – Oban Airport, November 2018

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Argyll and Bute Council

Internal Audit Report

December 2018

FINAL

Financial Planning

Audit Opinion: **Substantial**

	High	Medium	Low
Number of Findings	0	1	0

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Contents

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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 financial planning.

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. The Council is predominantly funded by the block grant provided by the Scottish Government. The annual budget setting process is an iterative ongoing process however the key activities associated with it commence at the end of August and conclude at the council meeting in February where the budget is approved and the following year's council tax set.

5. The budget process is led by Strategic Finance with direct input from budget holders using their knowledge of the needs and pressures of their service. The annual budget is formed using the last agreed recurring budget as a base which is updated to incorporate identified changes. The salary budget is generated following a comprehensive review of the staff establishment.

6. A budget outlook, covering the medium term (3 years), is prepared to provide a high level estimated overview of the Council's future financial position. In addition the Council has a financial strategy which covers the period 2018-2019 to 2020-21 in detail and provides high level estimates for 2021-2028.

Scope

7. The scope of the audit is to review the Council's revenue budget setting process and arrangements for medium to long term financial planning as outlined in the terms of reference issued to the Head of Strategic Finance in November 2018.

Risks

8. The risks considered throughout the audit were:

   - **SRR03: Financial Sustainability** – Insufficient resource to meet current and future service requirement. Budget not aligned/does not support business outcomes.
   - **ORR01: Capacity/Act Aligned to Priorities** – Strategic finance capacity and activity not aligned to Council's key strategic priorities
   - **ORR02: Resource Availability** – Service provision and performance affected by difficulties recruiting/retaining suitably qualified staff, organisational change, and/or staff sickness.

Audit Opinion

9. 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.

10. 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

11. We have highlighted one medium priority recommendation where we believe there is scope to strengthen the control and governance environment. This is summarised below:

    - the current implementation of the revised Strategic Finance structure should be supported by a programme of knowledge sharing, skills transfer and, where appropriate the creation of procedure notes.

12. 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

13. 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 role of the Chief Financial Officer (CFO) and the structure of Strategic Finance is appropriate to deliver strong financial management.	ORR02	Substantial	The Council's CFO is an integral part of the Council's Strategic Management Team (SMT) and has a role on a number of appropriate Council committees and boards. Strategic Finance have experienced a number of resource pressures in the past two years however action is being taken to address this including the implementation of a new structure. In order to fully maximise the benefit that can be obtained from the new structure resilience should be built through establishing a programme of knowledge sharing, skills transfer and ensuring that procedural guidance is available to guide officers.
2	Revenue budget preparation guidance has been prepared and is followed	SRR03 ORR01	Substantial	Budget preparation guidance document has been created which sets out the key stages and timescales for the revenue budget preparation process. This is supported by

	Control Objective	Link to Risk	Assessment	Summary Conclusion
				regular engagement between finance and budget holders.
3	Budget outlook is prepared and regularly reviewed to ensure assumptions are based on up-to-date information.	SRR03	High	A paper, providing an update on the Council's three year budget outlook, is prepared and submitted to every Policy & Resources Committee (P&R). It considers a best case, worst case and mid-range scenario and appropriately revises key assumptions to reflect updated information.
4	Financial Strategy is aligned to corporate outcomes and is updated appropriately to reflect any changes to assumptions	SRR03	High	The Council's medium to long term financial strategy is based on a set of assumptions and provides a range of potential scenarios and their financial implications. Its content is consistent with Audit Scotland guidance and is reviewed annually as part of the budget setting process.

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

3. Detailed Findings

The role of the Chief Financial Officer and the structure of Strategic Finance is appropriate to deliver strong financial management

15. The Head of Strategic Finance is the Council's CFO as per the requirements of section 95 of the Local Government (Scotland) Act 1973. The CFO has responsibility for the administration of the financial affairs of the Council and the provision of financial advice to Council officers and elected members. The CFO role and its responsibilities are clearly set out in the Council's constitution.

16. The CFO is an integral part of the Council's SMT which meet on a weekly basis. She also attends, and present reports to, council committees including full Council, the Audit and Scrutiny Committee and the P&R, and is a member of the Council's Transformation Board and Human Resources Board. She has delegated her role on the Asset Management Board to the Finance Manager.

17. A review of minutes and attendance at some of these committees and boards confirmed that the CFO has sufficient status within the Council to carry out her role effectively.

18. In 2017 and 2018 Strategic Finance have experienced a number of resource issues. One finance manager left post in October 2017, a second retired in September 2018 and medium to long term absences due to illness have placed, and continue to place, the service under pressure. This has predominantly been managed through a combination of secondments, acting up and use of agency workers.

19. In June 2018 the CFO announced her intention to restructure Strategic Finance with a focus on providing greater team resilience. A new finance manager was appointed in August 2018 and the CFO consulted with the Strategic Finance Management Team (SFMT) on a draft structure at

meetings held in August and October. The structure was amended to reflect feedback and the revised structure, shown at exhibit 1, was communicated to all finance staff in November 2018.

Exhibit 1 – Revised Strategic Finance Structure
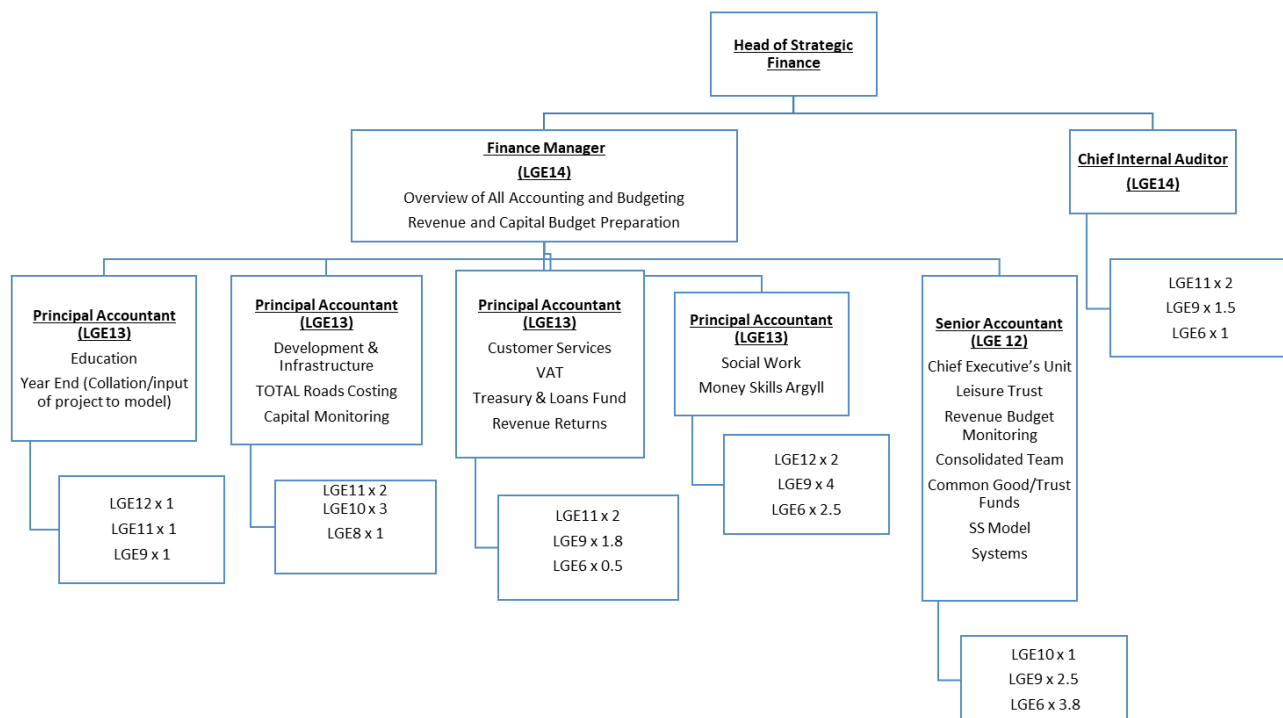
20. Exhibit 2 provides a summary of how the revised structure differs from the previous one in terms of full time equivalents (FTE) at each grade. This illustrates an overall increase of 0.83 FTE and, most significantly, increases at the LGE11 and LGE12 (qualified accountant) grades. The overall increase, and the increase in qualified staff, should provide additional capacity to deliver.

Exhibit 2 – Impact of Revised Strategic Finance Structure

Grade	Previous Structure (FTE)	Revised Structure (FTE)	Increase/Decrease (FTE)
Head of Service	1.00	1.00	0.00
LGE14	3.00	2.00	-1.00
LGE13	4.60	4.00	-0.60
LGE12	2.07	4.00	1.93
LGE11 (including trainees)	5.50	7.00	1.50
LGE10	4.00	4.00	0.00
LGE9	11.80	10.80	-1.00
LGE8	1.00	1.00	0.00
LGE6	7.80	7.80	0.00
Total	**40.77**	**41.60**	**0.83**

21. As per paragraph 19 one of the main reasons for the restructure was to provide greater resilience within the service to reduce the risk of long term absences having a detrimental

impact on service delivery. To support this objective the restructure needs to be supported by a programme of knowledge sharing and skills transfer and through ensuring appropriate procedure documents are in place to support service delivery.

Action Plan 1

22. It is a requirement that any officer above grade LGE11 is a qualified CCAB accountant and that grade LGE11 officers are either qualified, currently training towards an accountancy qualification or willing to undertake one. The current officers in posts comply with this requirement and there are a range of qualifications in the service including CIPFA, ICAS and CIMA. All finance officers are required to complete an annual performance review and development plan which includes a minimum of six targets to be achieved, two of which are linked to their job description, two to service or team plans and two to the Council's core competencies. Strategic Finance currently exceed the target of having 90% of staff with completed PRDs. Those still requiring completion are for staff who have recently returned from maternity leave.

23. Overall we are of the view that Strategic Finance, as a service, is appropriately qualified and experienced to carry out its duties. There are vacancies within the new structure which are to be filled through a combination of internal promotions and external recruitment.   This has been consulted on and agreed with the trade unions. As the CFO is aware of the need to fill these posts, and is actively engaging in progressing this, we have not highlighted this as an action plan point.

Revenue budget preparation guidance has been prepared and is followed

24. A budget preparation guidance document has been created which sets out the key stages and timescales for the revenue budget preparation process. It defines key tasks and roles and responsibilities in relation to:

    - calculating the base budget
    - preparing the salary budget
    - identifying savings
    - managing cost and demand pressures
    - budget profiling
    - financial risks.

25. There is regular engagement between Strategic Finance and budget holders throughout the year to discuss budget monitoring, projected outturn, earmarked reserves, and future year budget forecasts including cost and demand pressures and efficiency opportunities. These help inform the current year budgeting position, the preparation of the next year's revenue budget and the longer term budget outlook.

26. In their 2017/18 annual audit report the Council's external auditors, Audit Scotland, reported that the Council's financial management is effective with a budget process focussed on the Council's priorities. They further concluded that budget monitoring arrangements support effective scrutiny of the Council's finances and, in particular, that:

    - the Council's budget monitoring arrangements were effective
    - there was satisfactory communication of accurate and timely information on financial performance to members

- budget reports provided a good overall picture of the budget position at service level including good explanations for variances and changes to the initial budget
- there were appropriate arrangements in place to identify funding gaps through the regularly updated Budgetary Outlook Reports.

27. We have placed reliance on the conclusions reached by Audit Scotland and concluded that no further work was required against this control objective.

Budget outlook is prepared and regularly reviewed to ensure assumptions are based on up-to-date information

28. A budget outlook paper is prepared and submitted to each P&R Committee meeting. It provides an update to the Council's three year budget outlook including information on any assumptions that have changed since the previous update.

29. The budget outlook is prepared using a best case, worst case and mid-range scenario. Whilst the text in the quarterly P&R Committee report focuses on the mid-range scenario, all three scenarios are provided to committee members in an appendix to the report.

30. A review of P&R Committee papers in 2017/18 confirmed that the CFO regularly reviews and revises key assumptions to reflect updated information such as the Scottish Government finance settlement, national pay awards, pension contribution rates, non-pay inflation, and a range of cost and demand pressures.

Financial Strategy is aligned to corporate outcomes and is updated appropriately to reflect any changes to assumptions

31. The Council's medium to long term financial strategy (2018/19 – 2027/28) is based on a set of assumptions and provides a range of potential scenarios and their financial implications. The strategy is reviewed annually as part of the Council's budget setting process to reflect changes to any underlying assumptions. The medium term estimates are reviewed more regularly via the budget outlook reports submitted to the P&R Committee.

32. In their June 2014 report *'Scotland's public finances – a follow up audit: progress in meeting the challenges'* Audit Scotland set out what they consider to be the key requirements of a financial strategy. Exhibit 3 details our analysis of the Council's strategy against these key requirements. We have concluded that the strategy, and supporting committee papers, contain all the key requirements.

Exhibit 3 – Assessment of Council's Financial Strategy against Audit Scotland's Key Requirements

Audit Scotland Key Requirement	Council's Financial Strategy
Costs A clear understanding of the business model and the cost of individual activities within it.	The current economic context of the Council is set out in the strategy and the costs of services and cost and demand pressures are discussed throughout the document. A need to develop cost information in the use of unit costs and trend analysis is highlighted and this has been progressed by Strategic Finance during 2018.
Savings Options Evidence-based options for achieving savings.	Section 6 'The Strategy to Address the Budget Gap' provides examples of activity which have been undertaken to deliver savings and further opportunities which are being explored to protect against future funding gaps. There is specific reference to the

Audit Scotland Key Requirement	Council's Financial Strategy
	Council's Transformation Board which has been established to oversee transformation opportunities.
Savings Details Details of one-off and recurring savings.	Section 6.1 highlights details of savings already made, both one-off and recurring.
Scenario Planning Scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used.	The Council's approach to scenario planning is explained and used throughout the strategy to predict best, worst and mid-range case scenarios.
Assets/Liabilities & Reserves Details of assets, liabilities and reserves and how these will change over time.	Assets are considered including asset sustainability to ensure they continue to be fit for purpose, and service development to improve the efficiency and effectiveness of assets. Liabilities are considered as part of a consideration of the Council's debt management strategy. There is limited reference to the adequacy of reserves however the Council has a policy to hold a contingency balance equivalent to 2% of the Council's net expenditure budget to provide a working balance to cushion the impact of uneven cash flows and the impact of unexpected events. This is monitored on an ongoing basis with updates on projected year end reserve balances reported to the P&R Committee. In addition an annual report on reserves and balances is taken to full council as part of the budget pack. This advises members of the overall level of reserves held by the Council and an assessment of the potential impact of the Council's strategic, operational and financial risks on the adequacy of reserves.
Capital Investment Activity Details of assets, liabilities and reserves and how these will be paid for.	A capital investment programme is referenced as being needed to support the Council's key priorities. The Council's three year capital plan is referenced including consideration of capital funding streams, funding assumptions and longer term capital grant estimates.
Demand An analysis of levels of service demand and projected income.	Cost and demand pressures are referenced throughout the strategy including digitalisation, carbon management, income maximisation, asset and investment funds, shared services, fees and charges and service redesign.
Funding Shortfalls Any income or funding shortfalls and how to deal with these.	Medium term funding gaps have been identified for each of the scenarios provided and used to project out to ten years. Section six sets out the strategy to address the budget gap.
Strategy Links Clear links to the Corporate Strategy, CPP objectives and other relevant strategies such as workforce and asset management.	The Community Planning Partnership has agreed six outcomes in its Argyll and Bute Outcome Improvement Plan. The Council's Corporate Plan aligns the Council's business objectives with these six strategic outcomes. The strategy references these corporate documents and also references, and gives consideration to, both workforce planning and asset management in the relevant sections. This evidences that the strategy is considering relevant corporate strategy documents and although it might not clearly link to them, doing so is not considered to add any benefit to the document. Therefore no audit issue has been raised.

Audit Scotland Key Requirement	Council's Financial Strategy
Risks & Timescales The risks and timescales involved in achieving financial sustainability.	Risks are considered throughout the strategy but with a main focus in section seven which specifically considers the main financial risks and assumptions that the Council needs to keep under review. Financial risks are also considered as part of the Council's annual budget process and financial risks are reported throughout the year as part of routine budget monitoring.
Underpinning Plans The strategy should be underpinned by detailed financial plans in the short (one year) and medium (two to five years) term.	There is an annual revenue budget agreed by Council which is subject to effective budget monitoring and a three year budget outlook which is updated for each meeting of the P&R Committee..

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**Building Resilience** Strategic Finance is currently implementing a restructure focused on providing greater resilience and capacity to deliver. Consideration should be given to supporting the revised structure with a programme of knowledge sharing, skills transfer and procedure notes to reduce the impact on service delivery in the event of unforeseen absence.	Quality of service delivery may suffer due to over reliance on key officers.	Strategic Finance, through the SFMT, will implement a project to build resilience by delivering a structured programme of knowledge sharing. This will be supported by the development of procedure notes to provide guidance on the delivery of key finance processes.	Head of Strategic Finance 31 March 2020

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.

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Argyll and Bute Council

Internal Audit Report

October 2018

Final

LEADER

Audit Opinion: High

	High	Medium	Low
Number of Findings	0	0	0

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Contents

Contact Details

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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 & Bute Council's (the Council) system of internal control and governance in relation to LEADER.

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 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. The overall aim of the Argyll and the Islands LEADER Local Development Strategy (the Strategy) is to "Support community-led economic growth and sustainable rural development within the Argyll and the Islands Local Action Group (LAG) area." The audit is included in the plan as part of LEADER programme compliance arrangements at the request of the Economic Development Service.

5. LEADER has a strong history in Argyll and the Islands and has contributed significantly in the past to enabling rural communities to find their own solutions to development issues. Innovation has been a central component of this success, with LEADER providing the opportunity for piloting new approaches to rural development. LEADER seeks, through partnership working, to support rural communities to respond to development challenges that they face.

6. To be eligible for support from the LEADER programme, a project must meet one or more of the themes and objectives as described in the strategy. LEADER has partner representatives from a wide range of public, private and community sector organisations. LAG members meet quarterly and have responsibility for assessing applications and awarding funding to successful applicants.

Scope

7. The scope of the audit was to ensure compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement (SLA).

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 **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.

2. Objectives and Summary Assessment

10. 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 a SLA in place to between the Council, as the LEADER Accountable Body and the Scottish Government to support the delivery of the service.	High	There is a signed SLA between the Scottish Government, the Council and the LAG and appropriate checklists and procedural documents to ensure that all applications meet both the technical and financial requirements stipulated by the LEADER programme.
2	Current practice is compliant with the requirements of the SLA.	High	Of the 24 current LEADER projects five were sampled for testing against the SLA. All five fully complied with the assessed criteria.
3	Documentation is complete, accurate, stored appropriately and is compliant with the data retention policy.	High	Records are maintained on a shared drive and on the Scottish Government's Leader Actions in Rural Communities (LARCs) document management system. Access to these records is restricted to appropriate officers via logical access controls. Records relating to the current programme are required to be kept for three years following closure, six years from end of financial year during which final payment is made and 10 years where funding contributed to purchase of heritable property. The shared drive and LARCs have sufficient capacity to support this requirement.

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

3. Detailed Findings

There is a Service Level Agreement in place to between Argyll and Bute Council, as the LEADER Accountable Body and the Scottish Government to support the delivery of the service

12. There is a signed SLA between the Scottish Government, the Council and the LAG.

13. A review of the SLA found it to be comprehensive, covering relevant areas such as:

- roles and responsibilities of the Council and the Scottish Government
- performance measures
- counter fraud and compliance activities
- prosecution and litigation arrangements
- monitoring, reporting and management
- financial arrangements
- data retention
- gifts and hospitality.

14. A procedure manual entitled ""Argyll and the Islands LEADER Project Administrative System – Detail" clearly shows the various steps involved in ensuring that the grant process complies with the requirements of the SLA. Roles and responsibilities are clearly defined and there is appropriate duty segregation.

15. For each grant application a number of checklists are completed by the assessor and approved by either the supervisor, programme manager, chair or vice chair. This ensures all applications meet the technical and financial requirements stipulated by the LEADER programme.

16. All successful applicants are provided with procurement guidance which sets out the required procurement process prior to incurring project costs.

17. A review of procedures has recently been conducted with LEADER staff asked to input to that review process.

Current practice is compliant with the requirements of the Service Level Agreement

18. There are currently 24 live LEADER projects of which five were sampled to test compliance with the requirements of the LEADER SLA. In particular we ensured that

   - technical checklists were completed and signed
   - the project had been approved by the LAG
   - a scoring worksheet has been completed
   - a grant offer had been sent and signed by an appropriate council officer
   - a signed acceptance letter had been received
   - a post approval visit had been carried out and recorded
   - a payment checklist had been completed prior to payment being made
   - a copy of bank statement was provided confirming payment of expenditure prior to claims being paid
   - quotes have been received where appropriate.

19. Tested confirmed all five projects complied with the requirements listed above.

20. LAG minutes confirmed they had awarded grant funding via a "Decision in Principle" to two of the five sampled projects. This means the award is subject to certain conditions being met. We confirmed the conditions were met and that there is no requirement for the LAG to be notified.

21. Testing confirmed the Economic Growth Manager has signed letters of award for projects greater than £100,000, however payment authorisation levels for this position is £100,000 or less. As the Economic Growth Manager is mandated by the LAG to act on their behalf to make the award and the award letter is a commitment to pay and not a disbursement of monies we considered this acceptable. The Economic Growth Manager has not signed off and disbursements in excess of the £100,000 limit.

22. 2018/19 LEADER grants awarded to date amount to £1,708,292 out of total available funds of £3,794,171. Whilst we recognise that only projects which meet the technical requirements can be approved there is a potential for a significant shortfall in grants awarded against available funds. This issue was discussed by the LEADER Accountable Bodies at a meeting on 4 October 2018 and decided that:

- The cut-off point for the cooperation budget (a minimum of 5% of Argyll and Bute's total LEADER budget allocation) should be used by 29 March 2019. Any unused funds should be returned to the national pot for redistribution.

- The cut-off point for other projects will be 30 June 2019. Any unused funds will be required to be returned to the national pot for redistribution.

Documentation is complete, accurate, stored appropriately and is compliant with the data retention policy

23. Records are maintained on a shared drive and on the LARCs document management system. Access to these records is restricted to appropriate officers via logical access controls.

24. Records relating to the current programme are required to be kept for three years following closure, six years from end of the financial year during which final payment is made and 10 years where funding contributed to the purchase of heritable property. The shared drive and LARCs have sufficient capacity to support this requirement.

25. The LARCs system is a Scottish Government system. The Scottish Government's IT security policy outlines the requirements for the use of LARCs and will allow councils to access to the system if they:

- have an Acceptable Use Policy, IT Security and Data Protection (DP) policy
- have Freedom of Information (Scotland) Act and DP subject access request processes in place.

The Council complies with these requirements.

Appendix 1 – 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.

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Argyll and Bute Council

Internal Audit Report

November 2018

FINAL

VAT

Audit Opinion: **Limited**

	High	Medium	Low
Number of Findings	1	2	2

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Contents

Contact Details

1. Executive Summary

Introduction

1. As part of the risk based continuous monitoring programme included in 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 Value Added Tax (VAT). It has been conducted in accordance with relevant auditing standards.

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. A taxable person must charge VAT on any taxable supply of goods or services made in the UK in the course or furtherance of any business carried on by them. A taxable person is someone that is registered or required to register for UK VAT, this can include individuals, companies, partnerships, local authorities and charities. A taxable supply is a supply of goods or services made in the UK for which a consideration is received in return, unless it is classified as being exempt from VAT.

5. The Council, as a 'taxable person' must ensure that VAT is correctly charged on the supply of goods & services. If supplies are treated incorrectly then the Council may be subject to financial penalties.

6. Schedule 33 of the 1994 VAT Act sets out special VAT rules for 'public bodies', including local authorities, in relation to the recovery of VAT incurred on expenditure relating to 'non-business' activities and on exempt business activities.

7. All parties involved in the payment/cash receipting process have a general responsibility for ensuring the effectiveness of the VAT system. The Council's Corporate Support Team is responsible for preparing and submitting the monthly return to HMRC and the Senior Business Support Officer is the key point of contact for VAT queries for all Council officers.

8. The table below shows the Council's annual VAT figures for the previous 3 financial years:

	2015/16 (£,000)	2016/17 (£,000)	2017/18 (£,000)
Value of Output Tax	901	640	804
Value of Input Tax	15,644	14,750	17,392
Net VAT Reclaimed	14,743	14,110	16,588

Scope

9.   The scope of the audit was to assess the adequacy of the arrangements for compliance with HMRC VAT rules. Internal audit reviewed processes and procedures in place to test that controls, in relation to the VAT system and the classification and treatment of VAT, were in place and were operating effectively in practice.

Audit Opinion

10.   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.

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

Key Findings

12.   We have highlighted one high priority recommendation, two medium priority recommendations and two low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

-   periodic VAT sample tests should be reinstated with clarity provided over expected sample sizes
-   all new debtor charge codes requests should be subject to appropriate authorisation
-   a consistent VAT coding for payments to non-VAT registered suppliers should be identified
-   periodic consideration of the need for external VAT risk assessments should be implemented
-   additional officers should be trained in the preparation of the monthly VAT return.

13.   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

14.   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 adequate control framework over access to and operation of the VAT function. The system's accuracy and effectiveness should be assessed regularly	**Limited**	The Business Support Officer (BSO) is tasked with undertaking various control tests to provide assurance over VAT treatment. These tests are not currently being performed due to resource issues. Clarity is also required over the sample sizes that should be tested. Weaknesses were also

			identified in relation to the VAT treatment of payments to non-vat registered suppliers and the authorisation of new charge codes in the debtors system.
2	Detailed risk assessments have been undertaken to identify and prioritise areas of risk.	**Reasonable**	VAT risk assessments were carried out by the Council's appointed VAT advisor in 2013 and 2015 at the request of the Council. These incur additional charges as they are not provided as standard by the Council's contract with the advisors. The 2015 review, in particular, highlighted a number of areas for improvement and the Council implemented a 30 point improvement action plan to address them. Currently, risk reviews are only undertaken at the request of the Council. Due to the costs involved it is not recommended that external VAT risk assessments be carried out as a matter of course however strategic finance should consider implementing a process to periodically assess whether one would be beneficial.
3	Appropriate controls are in place to ensure that officers adhere to legislative requirements.	**Substantial**	VAT returns are submitted to HMRC on a monthly basis. HMRC submission receipts are retained to evidence that claims were submitted timeously and there is evidence that claims are prepared by an appropriate officer and checked by a separate individual. Only two council officers are aware of the process for preparing the monthly VAT return. To provide greater resilience it would be advisable that at least one further officer is appropriately trained.

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

3. Detailed Findings

There is an adequate control framework over access to and operation of the VAT function

16. A VAT manual providing guidance on key areas has been created and made available to all staff via the HUB. Further VAT training, in the form of an e-learning module, is currently being created by Strategic Finance. In addition, training was provided by the Council's previous VAT advisors to key finance staff.

17. Responsibility for the inputting of financial transactions, including VAT details, is spread across a wide range of council officers and transactional systems. Consequently there is a greater risk of inconsistent or incorrect VAT coding. To minimise this risk the BSO is supposed to carry out monthly sample testing of debtors and creditors transactions to ensure the correct VAT treatment has been applied. Due to resource constraints this control has not been undertaken since September 2017. There is also a lack of clarity over the number of transactions that should be sample tested.

Action Plan 1

18. Requests to set up new codes in the cash receipting system are raised via a maintenance form which needs to be signed off by the requester's line manager and the appropriate principal accountant. These are then sent to the revenue systems administrator for action. A sample test of five requests confirmed compliance with this control. A report of all active cash receipting codes is produced on a monthly basis. From this report the BSO is supposed to check a sample with any issues reported to the system administrator. Due to resource constraints this control has not been operational since January 2018.

Action Plan 1

19. When the VAT return is prepared there is a reasonableness check which checks the amount claimed via the Council's payables reports against an audit trail report which analyses the VAT category of all transactions. There is a target to have less than 0.1% variance. If this is exceeded officers will try and identify whether any invoices have been incorrectly keyed. This will focus on any invoices which appear unusual. This, to some extent, can provide some of the sample checking which is not currently being conducted however it will only be performed if there is a concern about the overall claim.

20. Debtor charge codes can be set up for recurring debtors. When a charge code is created a default coding structure and VAT treatment is determined removing the need to input VAT details manually. There is an inconsistent approach to how officers request a new debtors charge code. Some officers request charge codes by completing a 'charge code template' and submitting their request to the debtors team for it to be actioned. There are, however, some users who have the necessary system permissions to set up a charge code themselves and who send in the charge code template retrospectively. Strategic Finance implemented a process in 2013 whereby all requests from service staff should be made using a template form which requires to be signed by both the requestor's line manager and the appropriate principal accountant. Codes should not be added without this authorisation. This process is not being complied with.

Action Plan 2

21. On a quarterly basis the BSO receives a list of all new debtor charge codes and reviews them for appropriateness. Due to resource constraints only one list has been reviewed since January 2017.

Action Plan 1

22. We sampled 30 expenditure invoices between April and June 2018 to ensure to ensure a valid VAT invoice was present, that the amount on the ledger reconciled with the invoice and the VAT category was appropriate. This identified:

- Inconsistent coding of payments to non-VAT registered suppliers. Nine such payments were in the sample with five coded as 'Exempt' and four coded as 'Zero'. The Council has previously queried this with their VAT advisor who suggested creating a new category in the general ledger specifically for payments to non-VAT registered suppliers or, if this was not possible, to categorise these at 'outside the scope'.
- One payment for ferry tickets coded as exempt, which should be zero rated.
- One payment of a council tax refund coded as exempt which should be coded as 'outside the scope'.

Action Plan 3

23. When placing orders through the PECOS purchasing system, VAT codes are automatically selected if ordering catalogue items. However if non-catalogue items are orders the VAT code is selected manually. We sampled 30 orders raised via PECOS to ensure the VAT category was appropriate and the VAT amount on PECOS reconciled with the invoice received. No issues were identified.

Detailed risk assessments have been undertaken to identify and prioritise areas of risk

24. VAT risk assessments were carried out by the Council's appointed VAT advisor in 2013 and 2015 at the request of the Council. These incur additional charges as they are not part of the contract between the Council and the advisors. The 2015 review, in particular, highlighted a number of areas for improvement and the Council put in place a 30 point improvement action plan to address these issues. The improvement plan has been fully implemented with the exception of the ongoing activity to create a VAT e-learning module referenced at paragraph 16.

25. The VAT contract was put out to tender in late 2018 and new VAT advisors have recently been appointed. Under the terms of the new contract specific risk assessments still incur an additional charge so it is not considered appropriate to recommend that external periodic VAT risk assessments be carried out as a matter of course.

26. After the completion of this review, internal audit will be including VAT testing as part of its ongoing continuous monitoring programme and report on any findings as and when they are identified. This, and the implementation of the action plan at appendix 1 to this report, should provide additional safe checks over the accuracy of VAT processing which reduces the need for external VAT risk assessments. However it would be advisable for strategic finance to implement a process to periodically assess whether an external VAT risk assessment would be beneficial.

Action Plan 4

Appropriate controls are in place to ensure officers adhere to legislation requirements

27. VAT returns are submitted to HMRC on a monthly basis. HMRC submission receipts are retained to prove they were submitted timeously. VAT returns from February to July 2018 were reviewed and it was confirmed that they were prepared, checked and authorised by different staff. Only two council officers are aware of the process for preparing the monthly VAT return. To provide greater resilience it would be advisable that at least one further officer is provided appropriate training. It is however recognised that a detailed procedure note has been created which would support the preparation of the VAT return in the event of both trained officers being absent.

Action Plan 5

28. When the VAT return is prepared there is a reasonableness check which checks the amount claimed via the Council's payables reports against an audit trail report which analyses the VAT category of all transactions. There is a target to have a less than 0.1% percentage variance. If this is exceeded then officers will do some analysis to try and identify whether any invoices have been incorrectly keyed. This will focus on any invoices which appear unusual. This, to some extent, can provide some of the sample checking which the BSO is not currently performing however it will only be performed if there is a concern about the overall claim.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	**VAT Sample Testing** The Council's Business Support Officer is supposed to carry out a range of periodic sample checks to help minimise the risk of incorrect VAT treatment. These include: • monthly checks of debtors and creditors transactions • monthly check of a sample of active cash receipting codes • quarterly check of new debtor charge codes. Resource constraints have resulted in these controls not being performed. These should be reinstated and consideration given to formalising them more including establishing the sample sizes which should be checked.	Failure to undertake sample testing may result in failure to identify incorrect VAT treatment leading to potential penalties imposed by HMRC.	Sample testing will be undertaken going forward.	Business Support Officer 31 January 2019
Medium	2	**Authorisation of Debtor Charge Codes** There is an inconsistent approach to how officers can request a new debtors charge code. Some officers request charge codes by completing a 'charge code template' and submitting their request to the debtors team. There are, however, some users who have the necessary system permissions to set up a charge code themselves and who send in the charge code template retrospectively. In both instances the new charge code request is not subject to formal authorisation.	Inappropriate charge codes may be set up in the debtors system which may result in incorrect VAT treatment leading to potential penalties imposed by HMRC.	Authorisation approval forms for new debtor charge codes will be re-introduced.	Revenue and Benefits Manager 31 January 2019

Medium	3	**VAT Coding for non-VAT Registered Suppliers** Coding of payments to non-VAT registered suppliers is inconsistent. The Council has previously queried this with their VAT advisor who suggested creating a new category in the general ledger specifically for payments to non-VAT registered suppliers or, if this was not possible, to categorise these at 'outside the scope'.	Failure to ensure non VAT registered suppliers are coded correctly may result in transactions being included in the partial exemption calculation inappropriately.	Current process will be Investigated to identify improvements	Finance Manager Creditors Supervisor 31 March 2019
Low	4	**Risk Assessments** VAT risk assessments previously carried out by the Council's appointed VAT advisor were done at the request of the Council and incurred additional charges. The 2015 review, in particular, highlighted a number of areas for improvement and the Council put in place a 30 point improvement action plan to address those issues. From 2018/19 onwards, internal audit will be including VAT testing as part of its ongoing continuous monitoring programme. This should provide additional safe checks over the accuracy of VAT processing which reduces the need for external VAT risk assessments. However it would be advisable for strategic finance to implement a process to periodically assess whether an external VAT risk assessment would be beneficial.	Failure to take expert external advice on a periodic basis increases the risk of incorrect VAT treatment leading to potential penalties imposed by HMRC.	This will be considered as part of the quarterly engagement meetings with VAT Advisors	Head of Strategic Finance 30 June 2019

| Low | 5 | **Building Resilience for VAT Processing**

Only two council officers are aware of the process for preparing the monthly VAT return. To provide greater resilience it would be advisable that at least one further officer is provided appropriate training. | VAT returns may be submitted late in the event of extended absence. | There is currently a restructuring within Strategic Finance that will give increased resilience and once the full establishment is in place, others will be trained in this process. | Finance Manager

30 June 2019 |

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.

Argyll and Bute Council

Internal Audit Report

December 2018

FINAL

Risk Management

Audit Opinion: **Substantial**

	High	Medium	Low
Number of Findings	1	0	0

Choose Argyll and Bute **live, learn, work and do business**

Contents

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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 risk 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. Local government has seen and will continue to see unprecedented changes. This will lead to significant new risks, as the Council reviews its services and how they are delivered. Risk management will support and enhance the decision making process, increase the likelihood of the Council meeting its objectives and enable it to respond quickly to new pressures and opportunities.

5. Risk management is the planned and systematic process by which key risks are identified, evaluated and managed so as to maximise benefits and minimise potentially negative consequences to the Council and its partners. Risks are significant uncertainties that may affect the Council's ability to achieve its strategic and operational objectives.

Scope

6. The scope of the audit was to assess the adequacy of, and compliance with, the Council's risk management arrangements.

7. Internal audit reviewed the governance and control arrangements for preparation, maintenance and monitoring of the strategic and operational risk registers.

Risks

8. The risks considered throughout the audit were:
   - **CEU ORR 6:** Risk management is not embedded as an integral part of decision making process
   - **Audit Risk 1:** Risk registers are not updated regularly
   - **Audit Risk 2:** Risks are not properly assessed
   - **Audit Risk 3:** Risks are not prioritised
   - **Audit Risk 4:** Risks are not monitored and reported

Audit Opinion

9. 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.

10. 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

11. We have highlighted one high priority recommendations where we believe there is scope to strengthen the control and governance environment. This is summarised below:

- the governance arrangements in relation to the management of social care operational risks need to be clarified including responsibilities and the arrangements for regular review and updating of risks.

12. 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.

1. Objectives and Summary Assessment

13. 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	Risk management is actively supported and promoted by senior officers/elected members	ORR 6 Audit Risk 2 Audit Risk 4	High	The Council has a comprehensive risk management manual (the Manual) which has been approved by the Strategic Management Team (SMT) and the Policy and Resources Committee (P&R). Roles and responsibilities are identified and arrangements for updating the risk registers have been clearly set out and are being adhered to. Audit Scotland reviewed the Manual and concluded it enhanced the Council's risk management process.
2	There is a systematic approach to identify and prioritise risks and match them with appropriate responses	ORR 6 Audit Risk 1 Audit Risk 2 Audit Risk 3	High	The Manual clearly sets out a systematic approach for identifying and evaluating risks.
3	Risks and the action taken to mitigate them are regularly monitored	ORR 6 Audit Risk 4	Limited	The Council's strategic risk register and the operational risk registers for Customer Services, Development and Infrastructure Services and the Chief Executive's Unit are being

			reviewed and updated as per the requirements of the Manual. However there are concerns over the management of operational risks in relation to social care services. There does not appear to be clarity over the responsibility for maintaining them or clear evidence that they are being reviewed and updated on a regular basis.

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

2. Detailed Findings

Risk management is actively supported and promoted by senior officers/elected members

15. The Council has a risk management manual that is subject to regular review. The Manual was updated by the Chief Internal Auditor (CIA) and approved by the SMT in March 2018 and approved by the P&R Committee in May 2018. The Manual is comprehensive and clearly sets out:

- a definition of risk
- the Council's approach to managing risk
- a risk appetite statement
- roles and responsibilities including senior management and elected members
- the risk management cycle detailing the stages that should be undertaken to manage risk.

16. In the Council's 2017/18 external audit report, presented to full Council in November 2018, Audit Scotland concluded that the revised Manual represented an enhancement to the Council's risk management process.

17. A paper approved by the SMT in March 2018 set out the approved dates for the SMT's biannual review of the Strategic Risk Register (SRR) and Departmental Management Team's (DMT) quarterly reviews of the Operational Risk Registers (ORR). Review of SMT and DMT minutes confirmed that, bar the occasional time where a review was postponed for two weeks, these dates are being complied with.

18. The Head of Strategic Finance has operational responsibility for risk management and the Chief Executive provided an annual update on the SRR to the Audit and Scrutiny Committee in June 2018. This update is to occur on an annual basis.

There is a systematic approach to identify and prioritise risks and match them with appropriate responses

19. The Manual sets out a comprehensive process to identify and prioritise risks. In particular how to:

- identify risk
- assess the likelihood and impact of the risk
- prioritise risks (red, amber or green)

- mitigate and manage the risk.

20. The Manual also sets out the following reporting requirements in relation to risk severity:

- red risks to SMT and the CIA
- medium risks to DMT who determine whether they should be reported to SMT and the CIA
- low risks to DMT.

Risks and the action taken to mitigate them are regularly monitored

21. SMT and the DMT minutes for Customer Services, Development and Infrastructure Services and Chief Executive's Unit evidence that key risks are being reviewed and updated as per the requirements within the Manual. In addition copies of operational risk registers were forwarded to the CIA after they were updated.

22. A review of the SRR and ORRs confirmed that all risks have been assessed and prioritised and mitigating action identified where a decision has been taken that the risk requires to be treated.

23. Discussions with the Head of Service for Children and Families and Criminal Justice and Head of Service for Adult Services (East) has highlighted concerns over the management of operational risks in relation to social care services. There does not appear to be clarity over the responsibility for maintaining them or clear evidence that they are being reviewed and updated on a regular basis.

Action Plan 1

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	**Social care risk management** There does not appear to be clarity over responsibility for the management of social care operational risks or clear evidence that they are being reviewed and updated on a regular basis.	Risks to social care service delivery may not be effectively managed which could expose the Council to an unacceptable level of risk.	The Head of Strategic Finance will engage with the Chief Officer of HSCP to agree the process for monitoring and reporting Social Work operational risks.	Head of Strategic Finance 31 March 2019

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.

ARGYLL AND BUTE COUNCIL	AUDIT AND SCRUTINY COMMITTEE
STRATEGIC FINANCE	**18 DECEMBER 2018**

INTERNAL AUDIT REPORT FOLLOW UP 2018-19

1.0 INTRODUCTION

1.1 Internal audit reports include an action plan with a management response establishing the agreed action, timescale and responsible officer. Internal Audit record these in a database and, on a monthly basis, follow them up to ensure they are being progressed.

1.2 This report updates the committee on all open actions as at 31 October 2018 including information on actions where the agreed implementation date has been rescheduled.

2.0 RECOMMENDATIONS

2.1 To note the contents of the report.

3.0 DETAIL

3.1 The two tables below provide a numerical summary of open audit actions with a split between actions due between 01 August and 31 October and actions due after 31 October 2018.

Actions Due between 01 August 2018 and 31 October 2018

Service	Complete	Delayed / Rescheduled	Total
ADULT CARE	1	0	1
CUSTOMER & SUPPORT SERVICES	2	0	2
EDUCATION	1	0	1
IMPROVEMENT & HR	4	0	4
LIVEARGYLL	0	1	1
ROADS & AMENITY SERVICES	1	1	2
STRATEGIC FINANCE	1	1	2
TOTAL	**10**	**3**	**13**

Actions due after 31 October 2018

Service	Complete	On Course	Delayed / Rescheduled	Total
ADULT CARE	1	4	0	5
EDUCATION	1	4	0	5
GOVERNANCE & LAW	0	1	0	1
IMPROVEMENT & HR	0	1	0	1
LIVEARGYLL	0	1	0	1
PLANNING & REGULATORY SERVICES	0	4	0	4
ROADS & AMENITY SERVICES	0	1	1	2
TOTAL	2	16	1	19

3.2 Appendix 1 provides further detail on actions that have either been delayed and rescheduled or for which Internal Audit have received no response from the service to inform this follow up.

4.0 CONCLUSION

4.1 Satisfactory progress continues to be made implementing audit actions.

5.0 IMPLICATIONS

5.1 Policy   None

5.2 Financial   None

5.3 Legal   None

5.4 HR   None

5.5 Equalities   None

5.6 Risk   None

5.7 Customer Service   None

Laurence Slavin
Chief Internal Auditor
18 December 2018

For further information please contact:
Laurence Slavin, Chief Internal Auditor, 01436 657694

APPENDICES
Appendix 1 – Action Plan Points Delayed & Rescheduled or with No Response

Appendix 1 - Action Plan Points Delayed & Rescheduled or with No Response

Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
Action Plan Points Due between 01 August and 31 October 2018						
LIVEARGYLL	Public Availability of Board Papers Consideration should be given to making board meeting agendas, reports and minutes available to the public via the LiveArgyll website.	Low	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	30 Sept 2018 31 Dec 2018	Due to the new website not being up and running yet completion date has been revised.	Business Support Manager Delayed but rescheduled
ROADS AND AMENITY SERVICES	Review of Documented Policy and Procedures Whilst the street lighting policy details maintenance standards and a number of documented procedures have been updated in the last three years to reflect the LED replacement programme further work is required to ensure policy and procedures reflect current working practices.	High	Review of policy and procedures will be carried out.	30 Sept 2018 30 Nov 2018	Workload Issues and Competing Priorities are hampering completion of this review.	Contracts Manager Delayed but rescheduled
STRATEGIC FINANCE	VAT training has not been delivered to all staff involved in determining VAT	Medium	VAT training in the format of an e-learning module will be prepared to allow Argyll and Bute	31 Mar 2018 31 Aug 2018 30 Nov 2018	There is now a VAT manual on the HUB that all staff can easily access, however creation of e-learning module	Finance Manager, Corporate Support

Action Plan Points Due between 01 August and 31 October 2018						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
	treatment.		specific training to be delivered.		has been delayed until end of November due to staff workload.	Delayed but rescheduled

Action Plan Points Due After 31 October 2018						
Service / Report	Finding	Priority	Agreed Action	Dates	Comment	Responsible Officer / Status
ROADS & AMENITY SERVICES	There is no external representation on the Harbour Board contrary to British Ports authority guidance.	Medium	A review of the Current Harbour Board framework will be carried out. Thereafter, should any changes be required to the current regime, a report will be taken to a future Harbour Board meeting.	30 Jun 2018 30 Nov 2018 31 Jan 2019	Awaiting the next Harbour Board meeting before a report can be presented to Members – likely to be held in either December or January. Delayed until end of January 2019.	Marine Operations Manager Delayed but rescheduled

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ARGYLL AND BUTE COUNCIL   **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE   **18 DECEMBER 2018**

DRAFT 2019/20 INTERNAL AUDIT PLAN

---

1.   INTRODUCTION

1.1   This report introduces the draft 2019/20 internal audit plan.

2.   RECOMMENDATIONS

2.1   To note proposed content and feedback any comments to the Chief Internal Auditor (CIA).

3.   DETAIL

3.1   The Public Sector Internal Audit Standards (PSIAS) stipulate that the Council's internal audit plan must be risk based and focused on governance, risk and controls to allow the CIA to provide an annual opinion on the Council's internal control framework, based on the work undertaken during the year. This annual opinion informs the Annual Governance Statement.

3.2   The Committee agreed that a draft audit plan would be submitted to the December meeting of the Audit & Scrutiny Committee (the Committee) to allow members to review proposals and feedback any comments to the CIA prior to approving the finalised plan at the March 2019 meeting of the Committee.

3.3   The draft Annual Audit Plan is shown at Appendix 1. The creation of the plan gave consideration to a number of factors including:

- a new audit universe created by internal audit during 2018/19 which used the Council's ongoing 'reconstructing the budget' information as a baseline and factored in

  o   materiality

  o   sensitivity

  o   time elapsed since it was last subject to review

  o   overall audit assessment when it was last subject to review.

- the Council's strategic risk register and operational risk registers
- input from Executive Directors and Heads of Service
- a consideration of the need to provide audit coverage across all Heads of Service, the HSCP and LiveArgyll
- significant changes within the Council (i.e. new systems, new policies)
- wider issues in the public sector environment
- a team meeting to discuss possible areas of focus.

3.4   The Audit plan is broken down into 3 main areas which are:

- cross-cutting reviews including the Continuous monitoring programme

- service department reviews
- verification reviews.

3.5   Cross cutting reviews include auditable areas which are non-specific to an individual department or service activity and which are of a corporate or organisational wide focus. Service department reviews include auditable units within the audit universe which are specific to an individual department. Internal Audit also undertake a number of verification reviews throughout the year. These reviews are primarily focused on testing and verifying areas such as grant claims and performance indicator submissions.

3.6   Our continuous monitoring programme includes a number of auditable units which were historically subject to individual annual audits. These areas are now tested on a regular recurring basis with control weaknesses reported by exception.

3.7   An indicative outline scope is given for each of the audit reviews. Full terms of reference will be discussed and agreed with the relevant Head of Service as part of the planning process for each audit.

3.8   The plan is based on an estimated available 800 audit days with suitable contingency factored in. The plan remains fully flexible, to accommodate changes in the Council's risk profile and /or emerging risks.

3.9   Feedback on the draft plan has been obtained from the SMT, the two Council DMTs, the Chief Officer of the HSCP and the Live Argyll General manager. This has been incorporated into the plan included as appendix 1 to this paper

4.   CONCLUSION

4.1   The draft annual audit plan is risk based and is aligned to the Council's long term outcomes, corporate objectives and strategic risk register. The plan also incorporates continuous monitoring and verification activity sections.

5.   IMPLICATIONS

5.1   Policy - None
5.2   Financial -None
5.3   Legal -None
5.4   HR - None
5.5   Equalities - None
5.6   Risk – Delivery of an effective internal audit function and plan should help reduce the Council's risk exposure
5.7   Customer Service - None

Laurence Slavin,
Chief Internal Auditor
18 December 2018
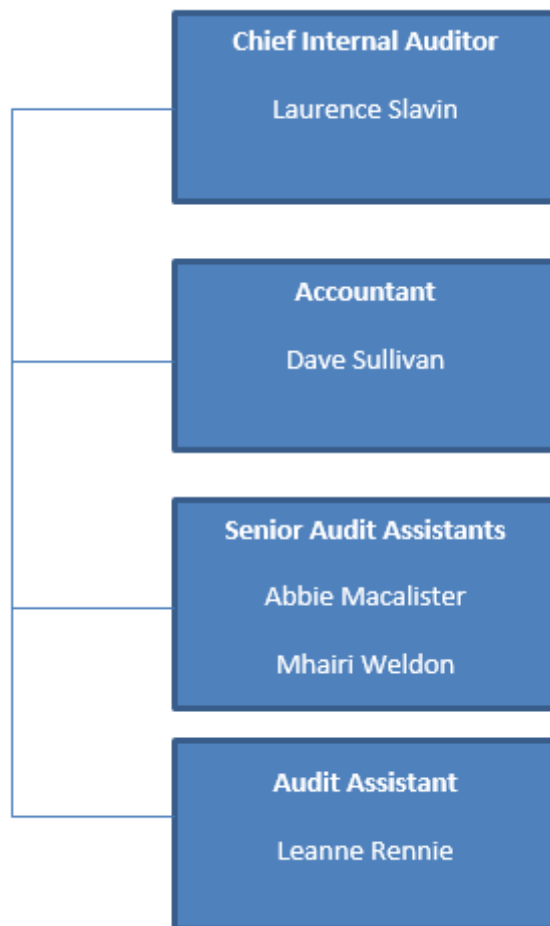
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APPENDICES

Appendix 1 – Draft 2019/20 Internal Audit Plan

Argyll and Bute Council

Internal Audit Plan

2019/20

DRAFT

Chief Internal Auditor

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Definition of Internal Audit

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

   Source: Section 4: Definition of Internal Auditing: Public Sector Internal Audit Standards

Purpose of Internal Audit

2. The main objective of internal audit is to provide a high quality, independent audit service to Argyll and Bute Council (the Council) which provides annual assurances in relation to internal controls and overall governance arrangements. In addition to this primary assurance role, internal audit will also:

   - support the Head of Strategic Finance (S95 Officer) and the Audit & Scrutiny Committee (the Committee) in the discharge of their duties

   - support the Council's Monitoring Officer

   - support the Council's anti-fraud and corruption arrangements

   - provide guidance on control implications for new or changed systems where appropriate

   - support the Council and the Strategic Management Team during key transformational / change projects.

Public Sector Internal Audit Standards (PSIAS) Requirements

3. PSIAS sets out the requirement for the:

   - Chief Internal Auditor (CIA) to prepare a risk-based audit plan which takes into account the Council's strategic objectives, associated risks and the views of senior management and the Committee

   - CIA to review and adjust the plan as necessary in response to changes in the Council's business, risks, operations and priorities

   - audit plan to incorporate or be linked to a strategic or high-level statement of how internal audit will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

Risk Assessment

4. Internal audit's approach to annual audit planning is risk-based with all areas which may be subject to audit review are contained within an audit universe which is subject to formal review, at least annually. The audit universe includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

5. The audit universe is risk assessed each year to help determine the annual audit plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Note however that that the audit universe, whilst a key factor, is not the only consideration

when determining the audit plan. Senior management have been consulted on priority areas for review, and cognisance is taken of the plans of external audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance.

6. The audit universe risk assessment is based upon a matrix taking account of scores for each potential audit area in respect of:

    - materiality (based on expenditure)

    - sensitivity (based on whether a service is a statutory duty, statutory power or non-statutory, is customer facing and whether it features as a specific challenge in the Council's service plans)

    - time elapsed since it was last subject to review

    - overall audit assessment when it was last subject to review.

7. The matrix gives an overall "score" for each area that is used to prioritise audit reviews.

Strategic Risks

8. The Strategic Risk Register records the Council's own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the annual audit plan with identified reviews cross referenced to the strategic risk register. An abridged version of the strategic risk register (version dated October 2018) is included in appendix 3 for reference.

Resourcing the Plan

9. Internal audit has a core establishment of five full time equivalent officers including three professionally qualified members of staff. Available audit days have been calculated as 800 days (including 90 days of management and administration time), following the deduction of annual leave, training, a small provision for sickness and 90 days to deliver scrutiny work. This 800 days total includes the CIA's input to audit reviews and the running of the internal audit team and a contingency of 60 days.

10. Given the range and complexity of areas to be reviewed it is important that suitably qualified, experienced and trained individuals are appointed to internal audit positions. The CIA, in compliance with PSIAS holds an appropriate professional qualification (CIPFA). Also within the internal audit section we have one CIMA qualified team member, one AAT qualified member who is also training for IIA and one training for CIPFA.

11. Internal audit officers identify training needs as part of their annual appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development.

12. Through an assessment of the mix of knowledge, skills and experience of the audit team, it is considered that the available resources are sufficient to achieve the work outlined in the plan.

Confirmation of Independence

13. PSIAS requires internal audit to communicate, on a timely basis, all facts and matters that may have a bearing on our independence. We can confirm that the staff members identified to

complete the reviews in the 2019/20 annual audit plan are independent and objectivity is not compromised.

2019/20 Internal Audit Plan

14. Appendix 1 presents the internal audit plan for 2019/20. As our internal audit approach is informed by risks, where appropriate, the plan is cross-referenced to the strategic risk register contained at appendix 3. Appendix 3 also demonstrates the strategic risks that were subject to audit in 2018/19 and those we are projecting to cover in the period 2019/20-2020/21. This provides assurance to the Committee that all strategic key risks are subject to audit coverage over a three year cycle. Note that the projected timescales in appendix 3 are provisional as these may change to reflect changes in the Council's risk environment.

15. Appendix 2 presents the 2019/20 internal audit plan in a different format to provide assurance to the Committee that it provides appropriate coverage across all the Council's directorates and head of service's areas of service delivery.

Monitoring the Plan

16. Internal audit reports on performance to the Committee on a quarterly basis including full copies of audit reports issued, progress implementing audit recommendations, performance against agreed performance indicators and a summary of all internal audit activity in the previous quarter.

Quality Assurance and Improvement Programme

17. The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.

18. The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's internal audit team has participated in this framework and an external validation of its own self-assessment took place during 2018/19 which concluded that we demonstrated overall compliance with PSIAS with many areas of strong practice. It also identified areas for improvement, all of which have been implemented. The next scheduled external assessment is not due for at least four years.

19. The internal audit team maintain a quality assurance and improvement programme which they review on a quarterly basis and report to the Committee as part of the standard agenda item 'Internal Audit Summary of Activities.' The programme details all improvement activity being progressed by the team.

Appendix 1 – 2019/20 Internal Audit Plan

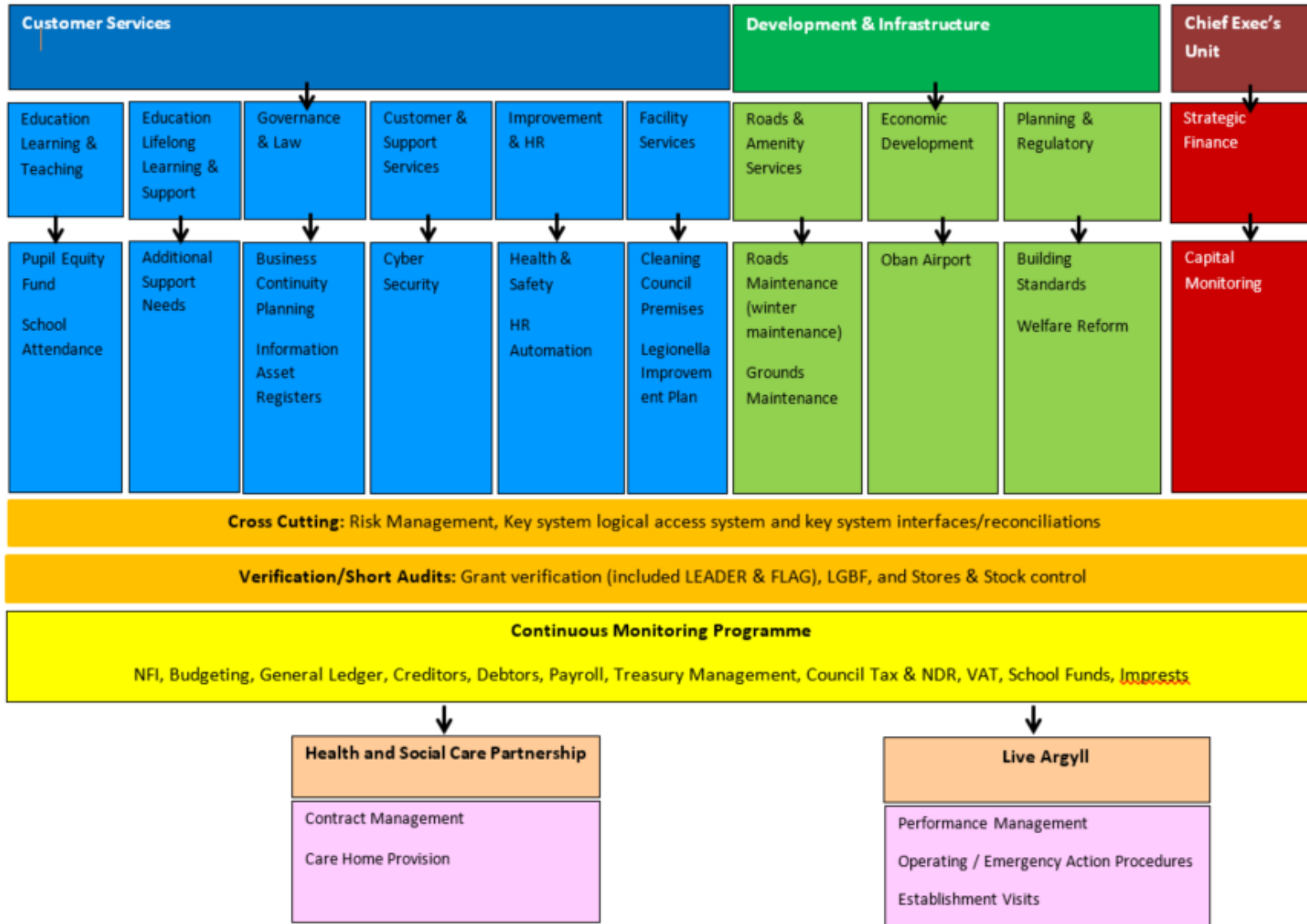| Directorate	Service	Topic	Days	High Level Scope	Strategic Risk
Cross Cutting	Council Wide	Risk management	15	Assess adequacy of risk management arrangements	
		Logical access (key systems)	15	Assess key system logical access rights to ensure they are commensurate to officer responsibilities	
		System interface & reconciliations	20	Ensure appropriate controls are in place over key system interfaces	
Cross Cutting	Continuous Monitoring Programme Council and Live Argyll	Fraud	15	Participation in National Fraud Initiative	
		Budgeting	15	Internal control environment	
		General Ledger	15	Internal control environment	
		Creditors	15	Internal control environment	
		Debtors	15	Internal control environment	
		Payroll	20	Internal control environment	
		Treasury management	15	Internal control environment	
		Council Tax and NDR	15	Internal control environment	
		Imprests	10	Internal control environment	
		VAT	15	Internal control environment	
		School Funds	20	Internal control environment	
		Follow–up	30	Compliance	
Chief Exec	Strategic Finance	Capital monitoring	20	Assess adequacy of policies, procedures and controls	SRR02
Customer Services	Governance & Law	Business continuity planning	20	Ensure that business continuity plans are in place and that arrangements adequately manage identified risks	SRR08
	Governance & Law	Information asset registers	20	Confirm arrangements for managing information assets are robust	
	Improvement and HR	Contract management / Health and safety	25	Ensure health and safety is appropriately considered in relation to contract tendering and safety impact assessments	
	Improvement and HR	HR automation	25	Assess the project management arrangements to support the delivery of HR automation	
	Customer and	Cyber security	25	Assess controls and procedures established to manage	SRR11

Directorate	Service	Topic	Days	High Level Scope	Strategic Risk
	Support Services			cyber security risks	
	Facility Services	Council premises cleaning	20	Review of control environment and compliance with relevant policies and procedures	
	Facility Services	Legionella improvement plan	20	Assess progress against the legionella improvement plan and compliance with, appropriate policies and procedures	
	Education - Lifelong Learning & Support	Additional support needs	30	Assess policies and procedures for allocating, and periodically reviewing ASN hours and the mitigating actions highlighted in the ASN red risk in the education operational risk register	
	Education - Learning & Teaching	School attendance	20	Review of control environment and compliance with policies & procedures for managing and following up school absence	
	Education - Learning & Teaching	Pupil equity fund	20	Review the controls over planning, monitoring and reporting of the pupil equity fund	
Development & Infrastructure	Economic Development	Oban airport	15	Assess compliance with the aerodrome operating manual	
	Planning and Regulatory Services	Building standards	25	Review compliance with relevant policies & procedures and assess progress against the two building standards amber risks in the EDI operational risk register	
	Planning and Regulatory Services	Welfare reform	25	Provide assurance in relation to the mitigating actions identified in the Council's 'Welfare reform' strategic risk and associated risks in the Customer Service and Development & Infrastructure operational risk registers.	SRR09
	Roads and Amenity Services	Winter maintenance	25	Assess arrangements in place for the planning and delivery of winter maintenance services including the mitigating actions highlighted in the red risk in the EDI operational risk register	
	Roads and Amenity Services	Grounds maintenance	25	Review of control environment and compliance with relevant policies and procedures	
Health & Social Care Partnership	H&SCP	Contract management	25	Review of governance and contract monitoring across a sample of contracts for care services	

Directorate	Service	Topic	Days	High Level Scope	Strategic Risk
	H&SCP	Care home provision	25	A review of care home provision which will focus on quality of provision and value for money. The scope of the audit will be agreed with the HSCP Chief Officer prior to the audit commencing.	
LiveArgyll	LiveArgyll	Normal operating / emergency action procedures	15	Assess a sample of existing operating procedures to ensure they are robust and being complied with. The procedures to be assessed will be agreed with the LiveArgyll General Manager.	
	LiveArgyll	Performance management	15	Review of performance management arrangements including setting of targets, alignment with business plans and performance monitoring	
	LiveArgyll	Establishment visits	10	Cyclical audit approach to assess LiveArgyll establishment's compliance with physical controls	
Verification Activity /Short Audits	Grant verification	Grant claim review	25	Evidence compliance with award criteria	
	LGBF	Accuracy	10	Accuracy of submission	
	Stores	Stock count	5	Assess stock count procedures	

Summary of Days

Area	Number of Days
Cross Cutting – Council Wide	50
Cross Cutting – Continuous Monitoring	200
Chief Executive's Unit	20
Customer Services	225
Development & Infrastructure	115
Health & Social Care Partnership	50
LiveArgyll	40
Verification	40
Contingency	60
Total	**800**

Appendix 2 – 2019/20 Internal Audit Plan by Council Directorate

Customer Services

Development & Infrastructure

Chief Exec's Unit

| Education Learning & Teaching | Education Lifelong Learning & Support | Governance & Law | Customer & Support Services | Improvement & HR | Facility Services | Roads & Amenity Services | Economic Development | Planning & Regulatory | Strategic Finance |

| Pupil Equity Fund

School Attendance | Additional Support Needs | Business Continuity Planning

Information Asset Registers | Cyber Security | Health & Safety

HR Automation | Cleaning Council Premises

Legionella Improvement Plan | Roads Maintenance (winter maintenance)

Grounds Maintenance | Oban Airport | Building Standards

Welfare Reform | Capital Monitoring |

Cross Cutting: Risk Management, Key system logical access system and key system interfaces/reconciliations

Verification/Short Audits: Grant verification (included LEADER & FLAG), LGBF, and Stores & Stock control

Continuous Monitoring Programme

NFI, Budgeting, General Ledger, Creditors, Debtors, Payroll, Treasury Management, Council Tax & NDR, VAT, School Funds, Imprests

Health and Social Care Partnership

Contract Management

Care Home Provision

Live Argyll

Performance Management

Operating / Emergency Action Procedures

Establishment Visits

Argyll and Bute Council – Internal Audit 2019/20 Annual Audit Plan

Appendix 3 – Strategic Risk Register (Abridged)

No	Risk	Gross Risk	Current Mitigation	Residual Risk	Approach	Key Actions and Deadlines	Audit Coverage
1	**Population and Economic Decline** Failure to identify relevant factors contributing to the decline and failure to develop strategies and actions targeting these factors.	20	1. Local outcome improvement plan targets population and economic recovery 2. Economic Forum 3. Maximise external funding opportunities 4. Strategic economic development action plan 5. Strategic infrastructure plan 6. Area economic development action plans 7.Promote and Market Argyll and Bute 8. Maximise social-eco benefits via effective partnership working	16	Treat	1.Deliver Rural Growth Deal (Initial Phase March 2020)	2018/19 2020/21
2	**Condition and suitability of Infrastructure & Asset Base** Infrastructure and asset base does not meet current and future requirements and is not being used or managed efficiently and effectively.	16	1. Asset management board 2.Robust capital planning and monitoring 3. Asset management work plan 2018/2019 4. Business case modelling including sustainability, development and strategic change 5. Intelligence and best practice sharing via Heads of Property Group. 6. New schools programme 7.Smarter Places 8. Community Empowerment and Community Asset Transfer – Arrangements in place to evaluate and determine requests. 9. Roads Asset Management Plan 10. Status and Options Report	12	Treat	1. One Council Property Approach 2. Implementation of R&A Services control hub and joint operations team (Dec 2018) 3. Consider implementation of new capital prioritisation process for 2020/21 budget (September 2019)	2018/19 2019/20

| 3 | **Financial Sustainability**

Insufficient resource to meet current and future service requirement.Budget not aligned / does not support business outcomes. | 16 | 1. Longer term financial planning.
2. Income generation activity
3. Robust budget preparation and budget monitoring protocols
4. Maintaining adequate contingency with reserves.
5. Digital transformation
6. Develop Effective workforce planning model
7. Transformation Programme. | 12 | Treat | 1. SF Service restructure (Dec 2018)
2. Complete annual review of financial strategy (Nov 2018)
3. Reconstructing budget as part of the budget 2019/20 process (Feb 2019)
4. Deliver Rural Growth Deal (Initial Phase March 2020)
5. Review of PIF / Business Outcomes (December 2018)
6. Review of HSCP Scheme of Integration with a focus on the risk sharing arrangements (March 2019) | 2018/19 |
| 4 | **Governance and Leadership**

Governance and leadership arrangements are not conducive to effective working and lead to a lack of strategic direction. | 16 | 1. Administration in place with working majority
2. Members Seminar programmes
3. Mentoring and Coaching Support for policy leads and Senior Management
4. Priorities agreed by Council
5.Corporate Plan sets out objectives
7. Performance Improvement Framework and Service Planning.
8. Leadership development programme.
9. Council constitution regularly reviewed and updated.
10. Established partnership governance arrangements
11. Scrutiny arrangements in respect of Police, Fire and Health.
12. Governance arrangements for scrutiny established | 12 | Treat | 1. Delivery of 2018/19 scrutiny plan' (June 2019)
2. Preparation for BV audit (timing of BV currently unknown) | 2018/19 |

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5	**Engagement and Understanding the needs of the Community** The Council fails to understand service user needs and emerging demographic trends and does not align service delivery to meet these.	12	1. Community Planning partnership 2. Community Engagement Strategy 3.Customer Service Board 4. Operation and development of panels and forums. Young people's plan, citizens panel 5. Budget Consultation 6.Comprehensive Complaints Protocols 7.Demographic and end user analysis 8. Conducted future of public services roadshows Summer 2018		6	Tolerate	1. Finalise Council response to LG review to be submitted to full Council in November 2018	2018/19
6	**Service Delivery** Insufficient resources to ensure effective service delivery	9	1. Performance Improvement Framework 2.Service Improvement plans 3.Argyll and Bute Manager programme 4. Customer needs analysis Protocols 5.Demographic and end user analysis 6.Workforce Planning 7.Internal and External Scrutiny Arrangements 8.Complaints process		6	Tolerate		2018/19

7	**Health and Social Care Partnership** Failure to deliver strategic objectives and integrate Health and Social Care services in an efficient and effective manner exposes the Council, as a key partner, to unacceptable financial and reputational risk.	20	1. HSCP integration scheme approved by Scottish government 2. Strategic Plan in place 3. Performance and Financial reporting arrangements in place 4. Independent audit arrangements in place. 5. Integrated Joint board with elected member representation including Council Leader 6.Chief Officer member of ABC Senior Management Team with co-location of officers 7. Tripartite leadership agreement	15	Treat	1. Develop new 3 year strategic plan 2. Enhanced monitoring of HSCP financial position (March 2019) 3. Consider arrangements for voluntary severance	2020/21
8	**Civil Contingency & Business continuity** arrangements are not effective.	8	1. Emergency Planning Test events 2. Critical Activity Recovery Plans 3. Roll out of Community resilience partnership programme 4. Peer review of major exercises undertaken to provide external validation of planning process 5. West of Scotland local resilience partnership 6.Cross sector expertise and partnership working 7. Emergency Management Support Team (EMST) meetings 8. Training	6	Tolerate		2019/20

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No.	Risk	Score	Controls	Score	Response	Actions	Year
9	**Welfare Reform** Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis	20	1. Welfare reform group established. 2. Joint working with DWP, CPP and other agencies. 3. Money Skills Argyll	12	Treat	1. Agree options for restructuring the funding model, revised KPIs, and revised unit costs with BIG and the other lead partners' (Oct 2018) 2. Complete contractual changes with BIG (Dec 2018)	2019/20
10	**Waste Management** Unable to dispose of waste in landfill sites due to the implications of the biodegradable municipal waste (BMW) landfill ban in 2021	20	1. Helensburgh and Lomond waste solution available via third party off takers	16	Treat	1. Seek Island impact assessment and funding necessary to achieve compliance 2. Seek derogation from Scottish Government for contractual and island waste. 3. Revise waste strategy	2018/19
11	**Service Delivery - Cyber Security** Unable to deliver services to customers because of failure of ICT systems following major cyber security breach	15	1. ICT Security & compliance officer in post, producing weekly threat analyses, member of CiSP 2. PSN and Cyber Essentials Plus accreditations for corporate network 3. Regular patching regimes in place 4. ICT Disaster recovery plans tested regularly 5. All critical activities have recovery plans developed (CARP's)	6	Treat	1. Continued close review and update of disaster recovery plans and associated tests 2.Development of incident response plan 3.Reviewing mirroring between data centres 4.Services to test CARPs regularly	2019/20

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Withdrawal from the European Union

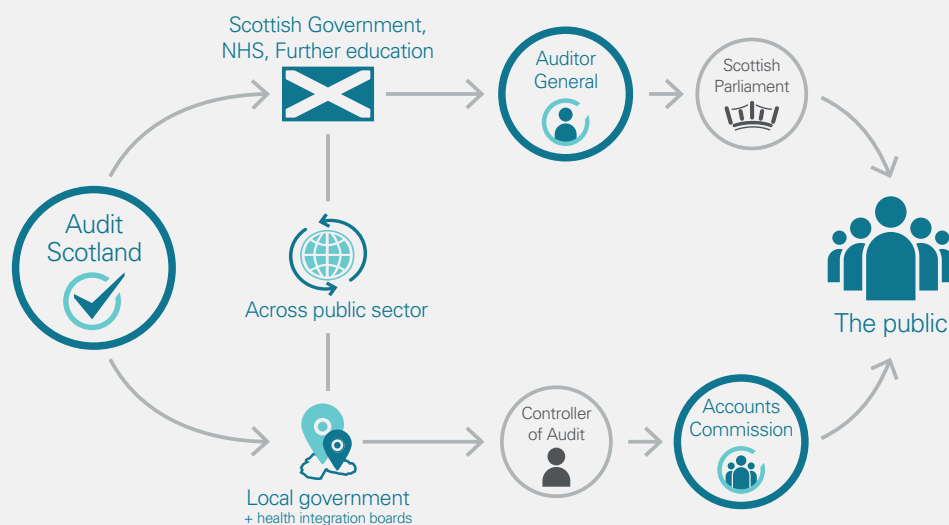**Key audit issues for the Scottish public sector**

✓AUDIT SCOTLAND

Prepared by Audit Scotland
October 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

Scottish Government, NHS, Further education

Auditor General

Scottish Parliament

Audit Scotland

Across public sector

The public

Local government
+ health integration boards

Controller of Audit

Accounts Commission

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Introduction

EU

Introduction

1. The UK will leave the European Union (EU) on 29 March 2019. If the UK Government and EU agree the terms of the UK's withdrawal before this date, there will be a transition period to the end of 2020. The UK's decision to leave the EU represents a major constitutional change for Scotland. It will affect everyone in Scotland to some degree. What these effects will be remains uncertain, but they will unfold over both the short and the long term.

2. Withdrawal from the EU comes at the same time as:

- a significant expansion of the Scottish Parliament's financial powers (see our **e-hub**)

- rising demand for public services, largely driven by demographic changes

- continued pressure on public sector budgets.

3. Audit Scotland, on behalf of the Auditor General for Scotland and the Accounts Commission, assesses the performance and financial management of over 220 public sector organisations in Scotland. This includes councils, NHS boards, further education colleges and central government bodies. Auditors are speaking to public bodies about how they are responding to the UK leaving the EU. This paper:

- presents our view of the key issues that withdrawal from the EU presents to the public bodies we audit, as at October 2018

- suggests questions that all public bodies should be asking themselves in the five months to 29 March 2019

- sets out our current plans to reflect withdrawal from the EU in our audit work.

We set out the key issues under three themes:

e-hub

Financial devolution in Scotland: the journey so far (web page)

People

Finance

Rules and regulations

4. The risks and opportunities presented by EU withdrawal will vary markedly between organisations. Some parts of the public sector are already experiencing an impact. We expect all public bodies to be assessing the potential impact of EU withdrawal on their organisation, and identifying any specific risks and how they will respond to them.

5. Uncertainty about withdrawal from the EU has created challenges for public bodies in the level of planning that they can do at this stage. Planning for leaving the EU has to be balanced with the management of other risks and uncertainties, existing financial and workforce pressures, and the need to maintain business-as-usual. As the details of the UK's withdrawal from the EU and its effects become clearer, we expect public bodies' preparations and response to intensify. Some public bodies may require additional capacity to allow them to react once arrangements for leaving the EU are agreed.

The Scottish Government's role

6. The Scottish Government is coordinating its approach to EU withdrawal through its Constitution and Europe programme. It is made up of eight workstreams, covering areas such as workforce, trade and legislation. It also monitors risks and readiness for EU withdrawal across the Scottish Government. The Scottish Government has identified the most significant challenges as its capacity and capability, financial implications and the ability to influence decisions taken by both the UK Government and the EU.[1]

7. Discussions between the Scottish and UK governments are particularly critical in areas where devolved issues (such as the NHS workforce) interact with reserved issues (such as migration policy). The National Audit Office (NAO) is reporting on how the UK Government is organising itself to deliver the UK's exit from the EU. Most recently, it reported on preparations in the Department for Environment, Food and Rural Affairs and the Department for Transport. It found that both departments face considerable challenges and have more contingency planning to do in case the UK and EU do not agree withdrawal arrangements.[2] Any lack of readiness at the UK level for withdrawal from the EU will have an impact in Scotland.
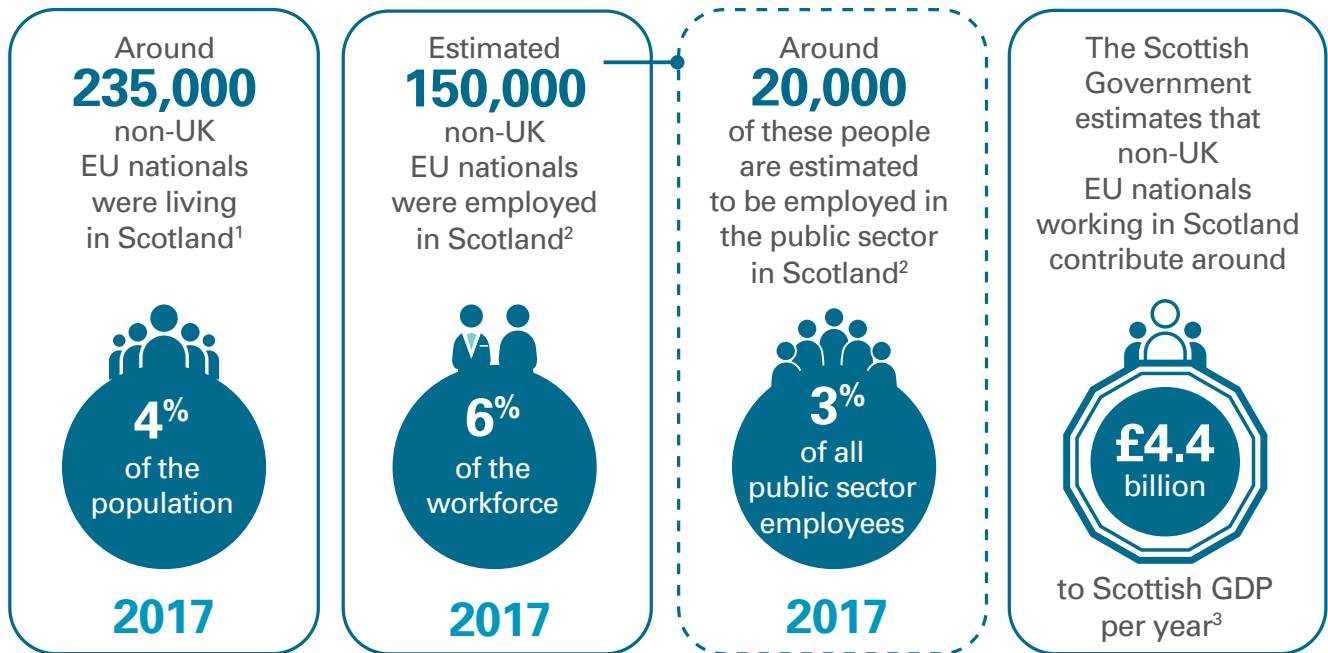
8. The Cabinet Secretary for Government Business and Constitutional Relations updated the Scottish Parliament on the progress of the EU negotiations in June 2018. He stated that the Scottish Government was *"intensifying its preparations for all exit possibilities in order to support the Scottish economy and our key sectors in what are and will continue to be very uncertain times"*.[3] In September 2018, the Cabinet Secretary provided a further update to the Parliament, stressing the scale of work required for leaving the EU, even with an agreement between the EU and the UK Government.[4]

9. The Scottish Government is working with public bodies to understand how they are preparing for the UK leaving the EU, and to identify and mitigate any potential risks. The UK Government allocated £37.3 million to the Scottish Government for 2018/19 to manage funding pressures resulting from EU withdrawal. This is a one-off payment to help manage short-term pressures. A large proportion of this money has been allocated to fund additional staff to help the Scottish Government and public bodies prepare for EU withdrawal.

10. The Permanent Secretary concluded in her latest governance statement that all Directors General are working to ensure that the Scottish Government are *''as prepared as possible''* for EU withdrawal, but added that she was not yet fully assured of readiness given that the *"terms and timings remain subject to significant uncertainty"*.[5]

11. The most significant issue for the Scottish Government and the wider public sector is the impact of withdrawal from the EU on the Scottish economy. The Scottish Government's medium-term financial strategy, published in May 2018, suggests that withdrawal from the EU will have a greater effect in Scotland than in the rest of the UK.[6] That would have a negative effect on the Scottish budget which now depends directly on Scotland's economic performance relative to the rest of the UK.

6 |

People

Around **235,000** non-UK EU nationals were living in Scotland[1]	Estimated **150,000** non-UK EU nationals were employed in Scotland[2]	Around **20,000** of these people are estimated to be employed in the public sector in Scotland[2]	The Scottish Government estimates that non-UK EU nationals working in Scotland contribute around
4% of the population	**6%** of the workforce	**3%** of all public sector employees	**£4.4** billion
2017	**2017**	**2017**	to Scottish GDP per year[3]

Notes:
1. *Population by Country of Birth and Nationality (2017),* National Records of Scotland, May 2018.
2. *Non-UK nationals in Scotland's workforce: Statistics from the Annual Population Survey 2017,* Scottish Government, June 2018.
3. T*he Contribution of EEA Citizens to Scotland,* Scottish Government, November 2017.

People

12. People coming to Scotland to work make an important contribution to the working-age population and to economic growth. The UK's exit from the EU is likely to result in changes to the rights of non-UK EU nationals to live, work, study and access services in the UK. This may result in people leaving Scotland or choosing not to move here, because they or their family members are non-UK EU nationals. This presents a challenge to the public sector workforce, which is already facing staffing and service pressures that will intensify as the working-age population decreases.

13. It has been difficult to assess the scale of the risk, as data on the nationality of employees in individual public bodies is not routinely collected. However, some figures are available, for example:

- The Scottish Government estimates that 4.4 per cent of the total health and social care workforce in Scotland are non-UK EU nationals (around 17,000 people).[7]

- Scottish Care estimates that between six and eight per cent of the workforce in the independent social care nursing sector in Scotland are from a non-UK European Economic Area (EEA) country (which includes all EU member states plus Iceland, Norway and Liechtenstein).[8]

- General Medical Council data shows that almost six per cent of doctors working in Scotland obtained their primary medical qualification in a non-UK EEA country.[9]

- Universities Scotland estimate that 11 per cent of all staff across the 19 higher education institutions it represents are non-UK EU nationals.

14. Some organisations are already seeing a reduction in the number of non-UK EU nationals applying to work in the UK and Scotland. This will exacerbate existing recruitment and retention difficulties, including high vacancy rates and skills gaps in specific sectors and geographic locations. For example:

- The Nursing and Midwifery Council reported an 87 per cent decrease in the number of nurses and midwives from non-UK EEA countries registering to work in the UK between 2016/17 and 2017/18.[10]

- A British Medical Association survey of members across the UK in 2018 found that 57 per cent of respondents reported a decline in applications for positions in their departments from non-UK nationals since the 2016 vote to leave the EU.[11]

- The General Teaching Council for Scotland reported that 14 teachers who qualified in non-UK EU countries applied to work in Scotland in the first half of 2018, which is when the bulk of applications are usually received. This compares to a total of 186 applications in 2017.[12]

15. Scottish universities attract many students from other EU countries who stay on to work in Scotland after graduation. Almost nine per cent of students enrolled in Scotland for the academic year 2016/17 were non-UK EU nationals.[13] The proportion of non-UK EU students varies between institution, so any decrease in enrolments to study in Scotland will affect each college and university differently. Non-UK EU students in Scotland are more likely to study science, technology, engineering and mathematics than students from the UK. A reduction in the number of non-UK EU nationals studying in Scotland could widen skills gaps in the workforce that will be vital to future economic performance.

16. Public bodies are working to understand the immediate and longer-term implications of EU withdrawal on their workforces. The first step for many is understanding how many non-UK EU nationals they employ and in which areas. For example, City of Edinburgh Council has done extensive work on this (Case study 1, page 8). The Scottish Government and COSLA are working with NHS boards, councils and other public bodies to draw together information on their workforces. This will be used to assess the potential impact of EU withdrawal on the delivery of services.

17. Councils, NHS boards and other public bodies are increasingly working in partnership with third sector and private organisations to deliver services, so it is important that they understand the potential impact of EU withdrawal on these organisations and their workforces.

Case study 1
City of Edinburgh Council

There are more than 39,000 people from non-UK EU countries in Edinburgh, more than any other city in Scotland. Since June 2017, City of Edinburgh Council has been working to identify how many non-UK EU nationals it employs directly. The data it has collected to date shows that 5.5 per cent of its current workforce are non-UK EU nationals, just over 1,000 employees.

Around 70 per cent of these people are employed in the communities and families department (including teachers, learning assistants and nursery nurses) and the health and social care department (including social workers and care and support workers). The council is using this information to help inform its long-term workforce planning.

The council is providing support and advice to colleagues who may be directly affected by the decision to leave the EU. This includes sharing up-to-date information on the rights of EU nationals to live and work in the UK after 29 March 2019, and the steps employees may need to take if they wish to continue working in the UK. The council is providing tailored guidance for managers to share with their teams. It is also developing measures to support colleagues whose family members may be affected by EU withdrawal.

COSLA has adopted the approach taken by City of Edinburgh Council to collect workforce data from other councils.

Source: City of Edinburgh Council

18. Councils and public bodies are also concerned about the potential impact on local economies. Sectors such as agriculture, fishing, food, tourism and hospitality are highly dependent on workers from outside Scotland. They fill important roles in local businesses, including providing seasonal work and filling vacancies in remote and rural locations. Some of these sectors are already reporting a decrease in their non-UK EU workforce, which could affect the economic growth of specific regions and Scotland more widely. Councils should be considering the potential impact of EU withdrawal on the local workforce in their planning for economic growth. For example, City of Edinburgh Council's five-year economy strategy highlights the potential economic effects and action the council is taking to maximise opportunities and mitigate risks. It recognises that it will need to regularly review the strategy to ensure that it can respond appropriately as the terms and impacts of EU withdrawal become clearer.

19. Highlands and Islands Enterprise undertakes quarterly surveys with businesses, community groups and social enterprises on the region's economy. Since 2016, this has included questions on the impact of the UK leaving the EU. The results show that businesses are concerned about the implications for workforces, skills and the free movement of people. The Scottish Government continues to work with Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and others to explore ways to attract and retain people with particular skills to work in specific sectors or regions.

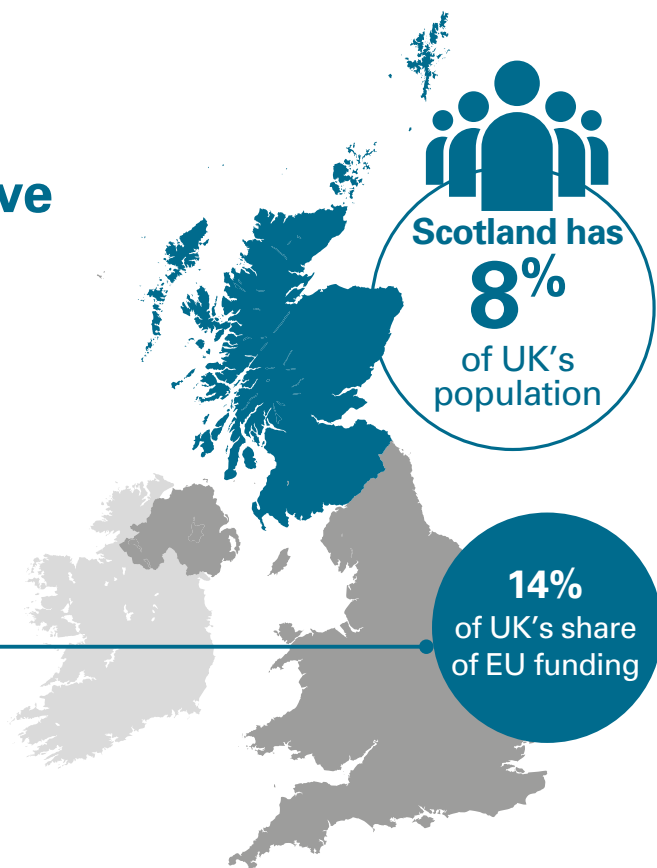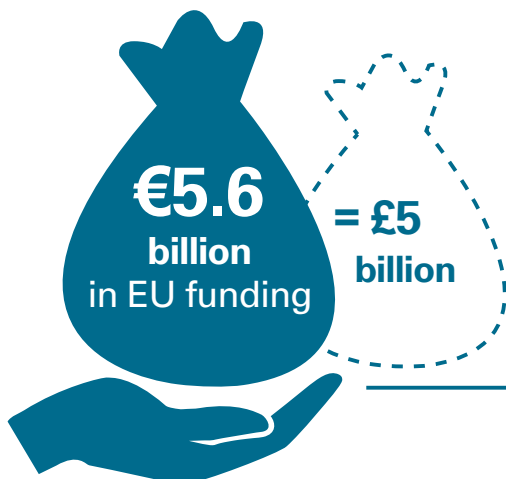## Key questions for public bodies

- How are we communicating with staff about the potential impact of EU withdrawal and preparing to support any employees who may be affected?

- How are we reflecting the implications of EU withdrawal in our long-term workforce planning?

- What are the workforce implications for the third sector and private organisations that provide services in partnership with us or on our behalf?

- Which parts of the workforce (sectors/skills/services/regions) are most at risk from the impact of EU withdrawal?

- How are we reflecting the implications for the local workforce in our economic strategies?

Finance

Between 2014 and 2020, Scotland expects to receive

€5.6 billion in EU funding

= £5 billion

Scotland has 8% of UK's population

14% of UK's share of EU funding

Notes: *European Union Funding in Scotland*, Scottish Parliament Information Centre, September 2018; *European Union Funding in Scotland 2014-2020*, Scottish Parliament Information Centre, November 2016.

Finance

20. EU funding provides direct support for farmers, the fishing industry, forestry, rural development and projects to encourage economic growth and development. Scotland expects to receive €5.6 billion (£5 billion) in EU funding over the seven-year programme period from 2014 to 2020 (Exhibit 1, page 11).[14] The majority of this is through the Common Agricultural Policy programme (CAP), as well as European Structural Funds (ESF) and the European Maritime and Fisheries Fund (EMFF).

Exhibit 1
EU funding for Scotland 2014–20 (€m)

European Maritime and
Fisheries Fund (EMFF)
€108 million
2%

European Structural
Funds (ESF)
€941 million
17%

€

81%

Common Agricultural
Policy programme (CAP)
€4,574 million
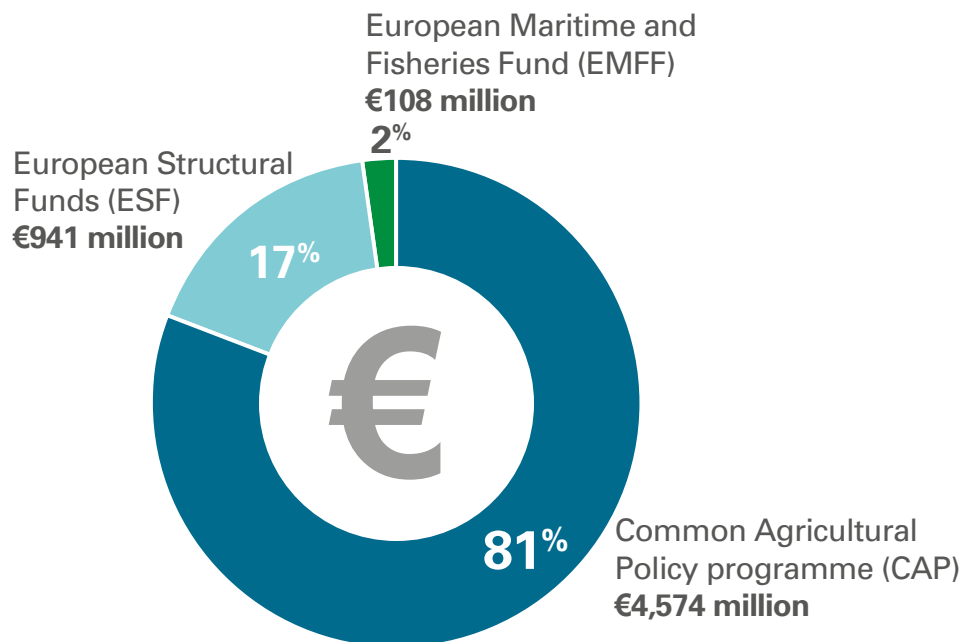
Source: Scottish Parliament Information Centre

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21. The CAP programme provides financial support to farmers, crofters and rural businesses. CAP payments are delivered through the Scottish Government, Forestry Commission Scotland and Scottish Natural Heritage. The UK Government has guaranteed that it will provide the same 'cash total in funds for farm support' until the end of the current UK Parliament, expected in 2022.[15] This guarantee applies to the whole of the UK. Both the UK and Scottish governments have set out proposals for how financial support to agriculture might work outside of the EU.[16]

22. ESF comprises two funds – the European Regional Development Fund and the European Social Fund. ESF supports a range of economic development activity undertaken and supported by public bodies such as the Scottish Government, councils, the Scottish Funding Council, Skills Development Scotland, Scottish Enterprise and Highlands and Islands Enterprise, Transport Scotland and Visit Scotland. Activities funded through ESF include skills and training, support to businesses, and infrastructure development. In July 2018, the UK Government confirmed that it would guarantee funding until the end of 2020, even if an agreement with the EU is not reached. The UK Government has also set out initial proposals for a Shared Prosperity Fund to replace ESF.

23. There is little clarity about what will happen to funding streams in the longer term. Any changes to funding will affect public bodies, their partners and service users. Public bodies should be assessing the potential implications of the loss of any EU funding and reflecting this in their long-term financial planning.

24. Scottish organisations can also bid for funding for specific projects, usually with partners from other EU member states. One example of this is Horizon 2020, which supports research and innovation. By July 2018, Scottish organisations were participating in Horizon 2020 projects worth around €533 million (£469 million), nearly three quarters of which (€386 million) was secured by Scottish universities.[17] Universities Scotland estimates that, in the academic year 2014/15, EU research funding represented nearly ten per cent of all funding for research in Scottish universities. There is uncertainty around the future of this funding and also the participation of Scottish institutions in European research programmes, collaborative projects and academic networks.

25. EU funding streams are dedicated to specific activities and can be targeted at specific geographic areas. This may not be the case in the future. For example, if any replacement funding is incorporated into the Scottish Government's block grant, it will be for the Scottish Government to decide whether or not to protect funding that is currently ring-fenced for specific activities or areas.

26. The existing systems for EU funding for agricultural support and encouraging economic growth have been characterised by applicants as having overly bureaucratic application processes that can discourage applications and require demanding levels of reporting and audit. Developing alternative future systems may provide an opportunity to streamline these systems and tailor them to specific UK and Scottish priorities.

Key questions for public bodies

- What level of funding do we, and our partners, receive from the EU and through which funding streams?

- What financial risks are associated with any changes after the UK has left the EU, during any transition period and beyond?

- How are we reflecting the implications of EU withdrawal in our long-term financial planning?

- How can we capitalise on opportunities to access alternative funds or redesign replacement funding streams?

Rules and regulations

The UK Government has identified:

UK imports from the EU were
£341 billion[1]

53% of all UK imports

2017

111 areas where EU legislation overlaps with devolved powers in scotland

It has grouped these into **24 policy areas**

Note: 1. *Statistics on UK-EU trade,* House of Commons Library, UK Parliament, July 2018.

Rules and regulations

27. EU rules and regulations affect all public bodies. Perhaps the most significant are trade and customs rules, which influence the cost and availability of supplies from EU countries. Any changes to these rules will have implications for public bodies that use products or services sourced from the EU. If the UK Government and the EU do not agree trade arrangements before the end of March 2019, goods entering the UK from the EU will be subject to additional customs checks and trade tariffs. This could lead to slower deliveries and an increase in the price of goods, such as food. Around 30 per cent of food eaten in the UK comes from the EU and the average tariff on non-EU food imports is 22 per cent.[18] Any increase in food prices will affect the budgets of schools, hospitals and prisons.

28. Public bodies may see an increase in the cost and availability of other essential goods and services. For example, it could take longer and be more expensive for NHS boards to access medicine or medical equipment. The EU accounts for 25 per cent of global medicine sales. Under EU rules, the NHS can buy medicines from EU countries where they are available at a lower price than in the UK.[19] Changes to these trade arrangements could increase costs for the NHS. Any delays caused by additional customs checks would have a significant impact

on imported products with a limited lifespan, such as radioisotopes that are used to treat cancer. If import regulations for radioactive materials, and other medical supplies, are not agreed by the time the UK leaves the EU, access to essential products could be affected. The extent of the impact on public bodies will depend on the final trade and customs agreement between the UK Government and the EU.

29. All public bodies have to comply with EU regulations, such as employment law, health and safety legislation and procurement rules. The EU (Withdrawal) Act 2018 means that from 29 March 2019, EU law will no longer take precedent over UK law. The Act copies most European law into UK law meaning that, in many practical senses, the existing legal framework will continue. Where regulations translate into UK and/or Scottish law, the impact is expected to be minimal. The UK Government intends to retain temporary control of 24 devolved policy areas once the UK has left the EU, until UK-wide frameworks for regulating these areas are developed.[20] These policy areas include agriculture and fisheries, the environment, food safety standards and public procurement.

30. The EU (Withdrawal) Act 2018 has immediate implications for bodies that regulate compliance with EU legislation, for example, regulatory bodies such as Food Standards Scotland (Case study 2, page 15) and the Scottish Environment Protection Agency (SEPA). SEPA estimates that the majority of environmental legislation will continue to apply once the UK leaves the EU, subject to minor amendments, although some areas will require more substantial amendments, such as the emissions trading scheme.

31. Recognition of professional qualifications from other EU member states helps to attract EU workers to Scotland, filling skills gaps and vacancies across the public sector. Removing this arrangement could make it more difficult for non-UK EU nationals to get jobs in some sectors, exacerbating existing recruitment and retention issues. BMA Scotland suggests that it could slow down the recruitment process or act as a deterrent to people considering working in the health sector in Scotland.[21] It is also likely to affect academic staff in universities.

32. Changes to the UK's membership of data and intelligence sharing organisations may also affect Scottish public bodies. For instance, Police Scotland can share information with law enforcement agencies in other EU countries through Europol. If Police Scotland are unable to continue sharing and accessing vital information, it may hinder criminal investigations.

33. In the long term, changes to rules and regulations could provide opportunities to put in place amendments or create legislation that better reflects Scottish needs and approaches. There could also be opportunities to improve standards and regulatory processes.

34. If the UK Government and EU fail to agree arrangements for the UK's exit from the EU, there will be no transition period and organisations will need to respond immediately. With only five months until the UK leaves the EU, there is an increasingly urgent need for public bodies to identify the risks associated with this scenario. It is critical that public bodies have contingency plans in place to allow them to manage these risks and respond rapidly in the event of the UK leaving the EU with no transition period.

Case study 2

Food Standards Scotland

Minimum standards for the majority of food law are set at an EU level. Food Standards Scotland (FSS) implements and monitors EU and Scottish regulations in certain food businesses. It also assesses the performance of Scottish councils in regulating other food and animal feed businesses. The UK Government has indicated that UK-wide frameworks may be needed for the devolved areas that FSS leads on, once the UK leaves the EU. FSS is currently working with the other administrations in the UK in this area, under agreed principles. Any impacts on devolved competence could have implications for FSS's role and responsibilities, service delivery and service users in the immediate and longer term.

Given the scale of the potential impact, FSS has established a dedicated programme to coordinate its work on EU withdrawal. It has developed a risk register to consider and assess the implications of EU withdrawal in detail. A key risk identified by FSS is potential disruption to supply chains. Failure to agree a deal with the EU concerning food coming from the EU could affect the supply of food to and from Scotland. FSS is working to mitigate these risks by:

- engaging with stakeholders to understand the requirements for future infrastructure, such as resources, facilities and systems for import and export activity

- commissioning a project with partners to understand trade flows to help inform potential future requirements

- engaging with councils on the practical implications of any future changes to how supply chains may operate, to ensure effective enforcement of food law and regulations.

Source: Food Standards Scotland

Key questions for public bodies

- What are the potential implications of changes to trade and customs rules to our supply chains and the cost and availability of products and services?

- What EU regulations/legislation are directly relevant to our role (eg, monitoring compliance)?

- What impact would potential changes to regulations/legislation have on how we deliver services and our service users?

- How can we capitalise on opportunities to streamline or improve the regulatory environment?

- How are we planning for the possibility that the UK Government and the EU fail to reach an agreement on arrangements for the UK's exit from the EU?

Future work

Future audit work

35. The impact of EU withdrawal on the public sector will feature in audit work for the foreseeable future. In the short term, auditors will assess and report on public bodies' response to withdrawal from the EU as part of the 2018/19 annual audits, which will be completed in 2019.

36. Planned performance audits will consider the impact of withdrawal from the EU, where relevant. In 2019, this is likely to include:

- Local government in Scotland: Challenges and performance

- NHS in Scotland

- NHS workforce

- Scotland's colleges

- Higher education finances

- Skills, planning and investment

37. Our longer-term work programme, for the five years from 2019/20, will include specific performance audits on arrangements following withdrawal from the EU.

Contact

38. If you would like to find out more about our work on EU withdrawal, please get in touch with your auditor, or contact:

- Mark Roberts: mroberts@audit-scotland.gov.uk

- Kirstin Scott: kscott@audit-scotland.gov.uk

- Rebecca Seidel: rseidel@audit-scotland.gov.uk

Endnotes

1   *Scottish Government consolidated accounts 2017/18,* Scottish Government, September 2018.

2   *Department for Environment, Food and Rural Affairs: Progress in implementing EU exit,* National Audit Office, September 2018 and *Department for Transport: Implementing the UK's exit from the European Union,* National Audit Office, July 2018.

3   *Official Report,* Scottish Parliament, 19 June 2018, column 16.

4   *Official Report,* Scottish Parliament, 11 September 2018, column 17.

5   *Scottish Government consolidated accounts 2017/18,* Scottish Government, September 2018.

6   *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy,* Scottish Government, May 2018.

7   *Non-UK nationals in Scotland's workforce: Statistics from the Annual Population Survey 2017,* Scottish Government, June 2018.

8   *Leaving the European Union (Impact on Health and Social Care),* Scottish Care evidence to the Scottish Parliament's Health and Sport Committee, March 2018.

9   *General Medical Council submission to Health and Sport Committee inquiry into the impact of leaving the EU on health and social care in Scotland,* General Medical Council, January 2018.

10   *The Nursing and Midwifery Council register,* Nursing and Midwifery Council, March 2018.

11   *BMA quarterly survey, current views from across the medical association,* Quarter 2: 2018, British Medical Association, July 2018.

12   *Qualified Outside of Scotland Registrations (EU Only): GTC Scotland Statistics,* General Teaching Council for Scotland, July 2018.

13   *Higher Education student enrolments by domicile* (2012/13-2016/17), Higher Education Statistics Authority, 2018.

14   Euro to sterling conversion as at 25 September 2018.

15   *Brexit: Future UK agriculture policy,* House of Commons Library, UK Parliament, January 2018.

16   *Brexit: Future UK agriculture policy,* House of Commons Library, UK Parliament, January 2018; *Stability and simplicity: proposals for a rural funding transition period,* Scottish Government, June 2018.

17   *European Union Funding in Scotland,* Scottish Parliament Information Centre, September 2018.

18   *Brexit: food prices and availability,* European Union Committee, House of Lords, May 2018.

19   *Leaving the EU: Implications for health and social care,* Scottish Parliament Information Centre, January 2018.

20   *Frameworks analysis: breakdown of areas of EU law that intersect with devolved competence in Scotland, Wales and Northern Ireland,* UK Government, March 2018.

21   *BMA Scotland submission to Health and Sport Committee inquiry into the impact of leaving the EU on health and social care in Scotland,* BMA Scotland, 2018.

Withdrawal from the European Union

Key audit issues for the Scottish public sector

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✓ **AUDIT** SCOTLAND

ARGYLL AND BUTE COUNCIL   **Audit and Scrutiny Committee**

Customer Services   **18 December 2018**

Corporate Complaints – Annual Report 2017-18

1.0   INTRODUCTION

1.1   The report provides information on how the Council has dealt with complaints during the period between 1 April 2017 and 31 March 2018 and performed against the statutory indicators which have been agreed between the Scottish Public Services Ombudsman (SPSO) and the Local Authorities Complaint Handlers Network.

2.0   RECOMMENDATIONS

2.1   The Committee review and endorse the content of this report.

3.0   DETAIL

3.1   All council services follows the SPSO's model complaint handling procedure (CHP). A requirement of the CHP is that the Council report to the SPSO on the set of statutory performance indicators, agreed between the SPSO and the Local Authorities Complaints Handlers Network, and prepare an annual report for consideration by Members.

3.2   The annual report for the period between 1 April 2017 and 31 March 2018 is attached at Appendix 1.

3.3   The Council received 498 complaints over the course of the year and page 7 of the report advises that the Council closed (dealt with) 403 complaints at stage 1 and 84 complaints at stage 2. 11 complaints were closed after escalation by the customer to stage 2. This low number of escalations (2%) indicates that most customers were content with the stage 1 response. Where appropriate stage 1 responses would include an apology and confirmation of the actions taken by the Council to reduce the likelihood of a recurrence.

3.4   Page 11 of the report advises that the Council on average took 6.2 working days to respond to stage 1 complaints and on average 18.4 working days to respond to stage 2 complaints, these figures are only slightly higher than in 2016/17 (6 working days and 17.2 working days respectively)

3.5   Page 12 of the report advises on performance against timescales. Across the Council we closed 68.2% of stage 1 complaints within the 5 working day timescale, which is slightly lower than in 2016/17 (68.7%). We closed 75% of stage 2 complaints within the 20 working day timescale which is an increase on 2016/17 (72.6%).

3.6   A breakdown across Council services of the number of complaints dealt with by each service at stage 1 and stage 2 and their respective performance against timescales is attached at Appendix 2.

3.7   Page 17 of the report advises that 20 complaints were received by the SPSO which is a reduction in the number received by them in 2016/17 (33) and as in 2016/17 only 3 went to a full investigation. This low number of referrals to the SPSO (4%) of the total number of complaints received indicates that customers are generally content with the responses provided.

3.8   Pages 18 to 20 of the report provides a summary of the Council's performance when benchmarked against Scotland as a whole and Councils that are similar in terms of population and geographical area. On the whole we are performing well against the national averages and when compared with our benchmarked Councils.

3.9   The complaints procedure is administered centrally by the Governance Unit within Customer Services who prepare quarterly reports which are considered by the SMT. Each Department also has Complaints Officers / Complaints Coordinators who are responsible for ensuring that the procedure is followed.

3.10   The quarterly reports are available to the public via the complaints page on the Council's website at https://www.argyll-bute.gov.uk/do-it-online/comments-and-complaints

4.0   CONCLUSION

4.1   The Council has dealt with the complaints it has received in a way which is compatible with the ethos of the CHP and complied with its statutory obligation to provide an annual report.

5.0   IMPLICATIONS

5.1	Policy	None
5.2	Financial	None
5.3	Legal	Statutory requirement to prepare report
5.4	HR	None
5.5	Equalities	None

5.6	Risk	None
5.7	Customer Service	None

Douglas Hendry
Executive Director of Customer Services

12 November 2018

For further information contact: Iain Jackson, Governance and Risk Manager
01546 604188

APPENDICES

Appendix 1 – Annual Complaints Report 2017 -18
Appendix 2 – Services performance against timescales

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Annual Complaints Performance Report 2017-2018

Contents

Foreword

I am pleased to be able to present Argyll and Bute Council's third Annual Complaints Report. This report provides information on customer complaints handled between 1 April 2017 and 31 March 2018.

Argyll and Bute Council is committed to providing high quality services for residents, businesses and visitors in Argyll and Bute. An important part of this commitment is to ensure we have effective processes in place to resolve matters when things go wrong, and to learn from the issues reported to us to improve the quality of services provided.

We aim to be thorough, transparent, objective and fair in our approach to complaints, and strive to make it as easy as possible for customers to access our complaints procedure through our website, by email, over the telephone or in person.

We understand that it can be disappointing and frustrating when expectations are not met, however, we welcome and value complaints and I see this as a positive point.   Feedback from our customers allows us to take steps to correct things and identify areas where service delivery can be improved. Some examples of improvements made in response to a complaint having been received are included in this report.

Cleland Sneddon

Chief Executive – Argyll and Bute Council

Our Complaints Procedure

A complaint is 'an expression of dissatisfaction about the Council's action or lack of action, or about the standard of service provided by or on behalf of the Council'

Customers must normally notify their complaint to a member of staff within six months of the date they first knew of the problem, unless there are special circumstances which would cause this timescale to be extended.   Clarification on relevant factors can be obtained from Iain Jackson, our Corporate Complaints Officer.

In most cases a complaint will be made because the customer considers that the Council has:

Done Something Wrong

Failed to live up to expectations

Treated someone badly or unfairly
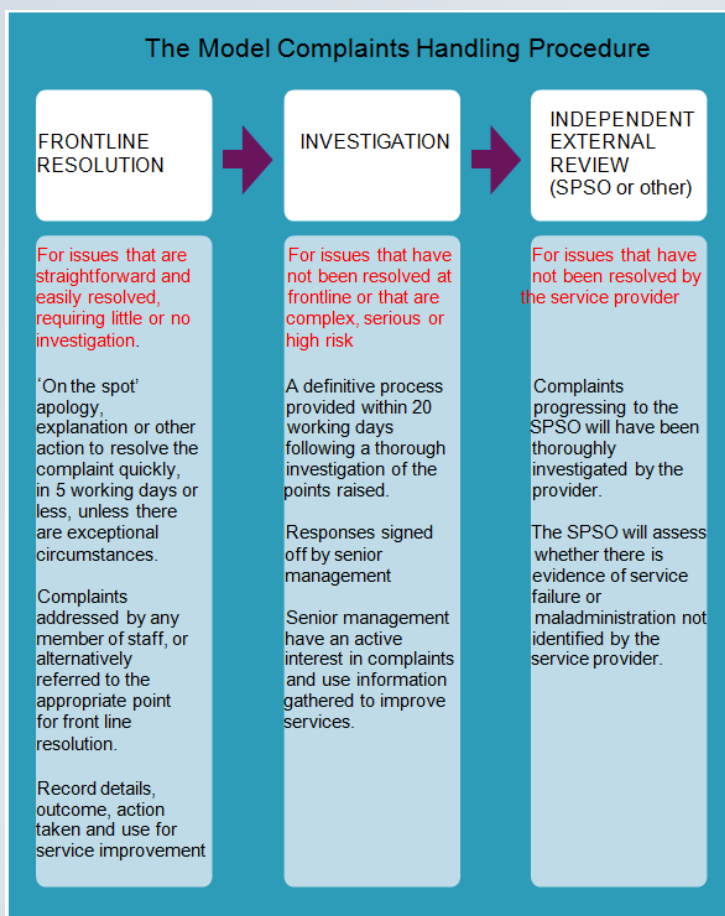
The model complaints procedure has two stages.

Stage 1: We always try to resolve Stage 1 complaints within 5 working days.

Stage 2: Some complaints will start at this stage if the issues are complex and require detailed investigation or if the complaint is identified as serious, high risk or high profile. Also where a customer is not satisfied with a Stage 1 resolution, their complaint is escalated to Stage 2. All Stage 2 complaints are acknowledged in 3 working days and we aim for a resolution within 20 days.

If the customer is still dissatisfied they can ask the SPSO to review it.

The Model Complaints Handling Procedure

FRONTLINE RESOLUTION → **INVESTIGATION** → **INDEPENDENT EXTERNAL REVIEW (SPSO or other)**

For issues that are straightforward and easily resolved, requiring little or no investigation.

'On the spot' apology, explanation or other action to resolve the complaint quickly, in 5 working days or less, unless there are exceptional circumstances.

Complaints addressed by any member of staff, or alternatively referred to the appropriate point for front line resolution.

Record details, outcome, action taken and use for service improvement

For issues that have not been resolved at frontline or that are complex, serious or high risk

A definitive process provided within 20 working days following a thorough investigation of the points raised.

Responses signed off by senior management

Senior management have an active interest in complaints and use information gathered to improve services.

For issues that have not been resolved by the service provider

Complaints progressing to the SPSO will have been thoroughly investigated by the provider.

The SPSO will assess whether there is evidence of service failure or maladministration not identified by the service provider.

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Our Performance – Key Figures

The following sections of this report provide information on our complaints handling based on performance indicators approved by the Scottish Public Services Ombudsman (SPSO)

Indicator 1 – Complaints Received per 1,000 of Population

This section details the total number of complaints handled by Argyll and Bute Council between 1 April 2017 and 31 March 2018.   So a fair comparison can be made across all 32 Scottish councils, the figure of complaints per 1,000 of population is used.

The population of Argyll and Bute is estimated at around **86,810***
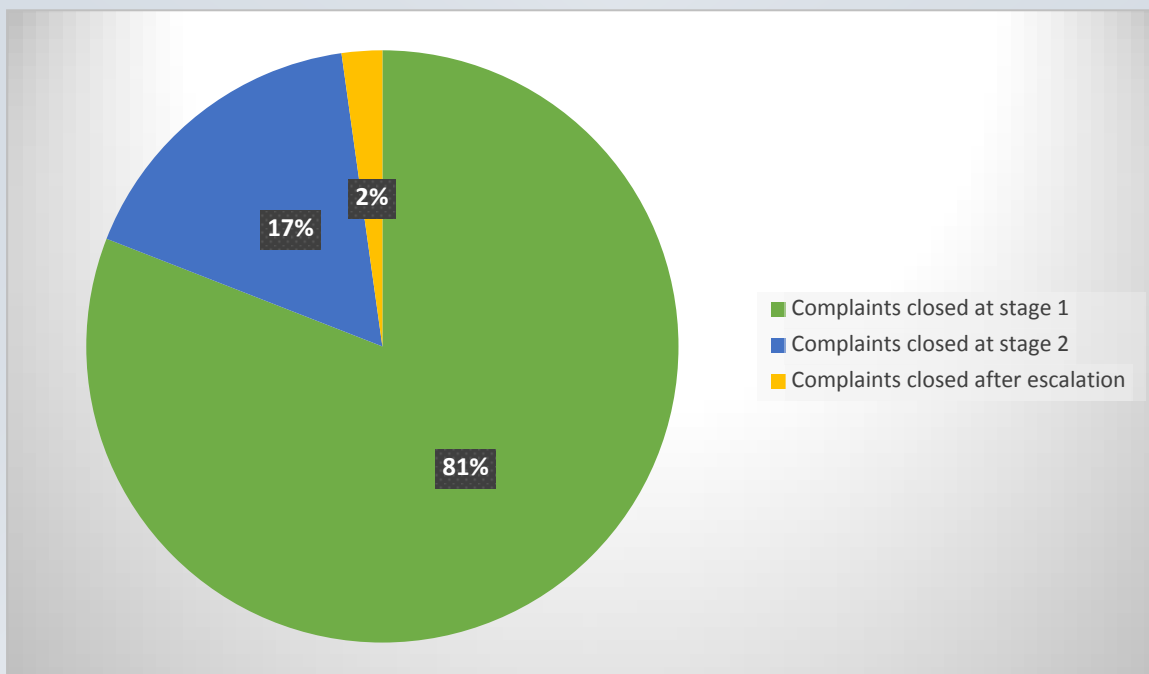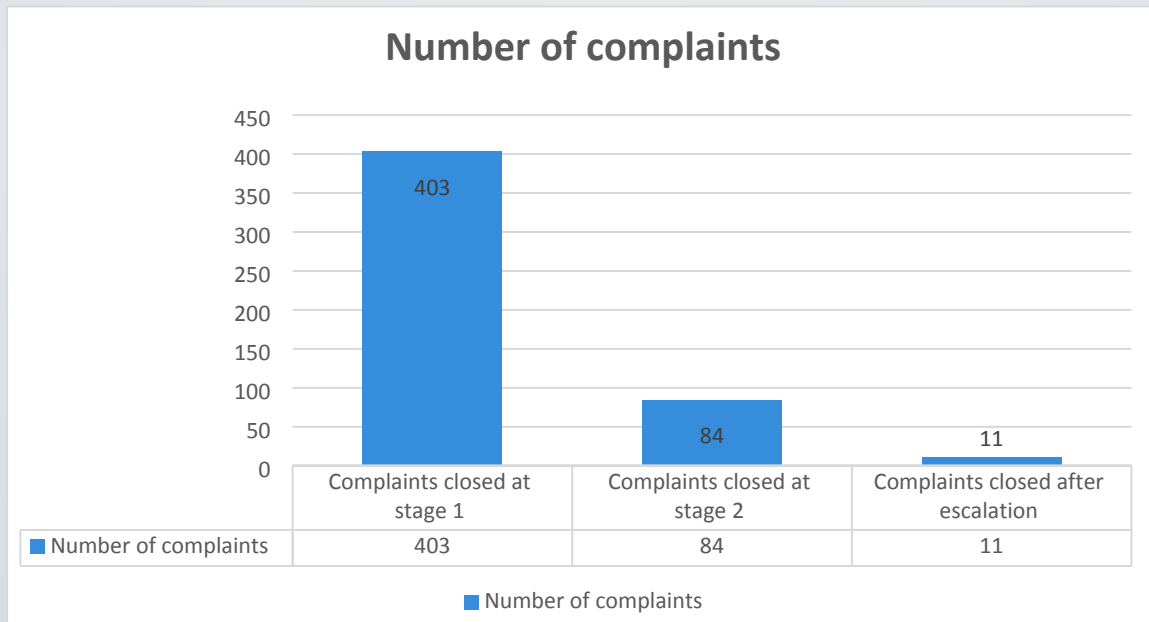
In 2017/2018 Argyll and Bute received and processed **498** complaints.

This means there were **5.7** complaints per **1,000 population**, or roughly **1** resident in **175** made a complaint about our services.

* National Records of Scotland mid-year 2017 population estimate for Argyll and Bute.

Indicator 2 – Number of Complaints

This indicator details information on the number of complaint closed at Stages 1 and 2 and also as a percentage of all complaints received
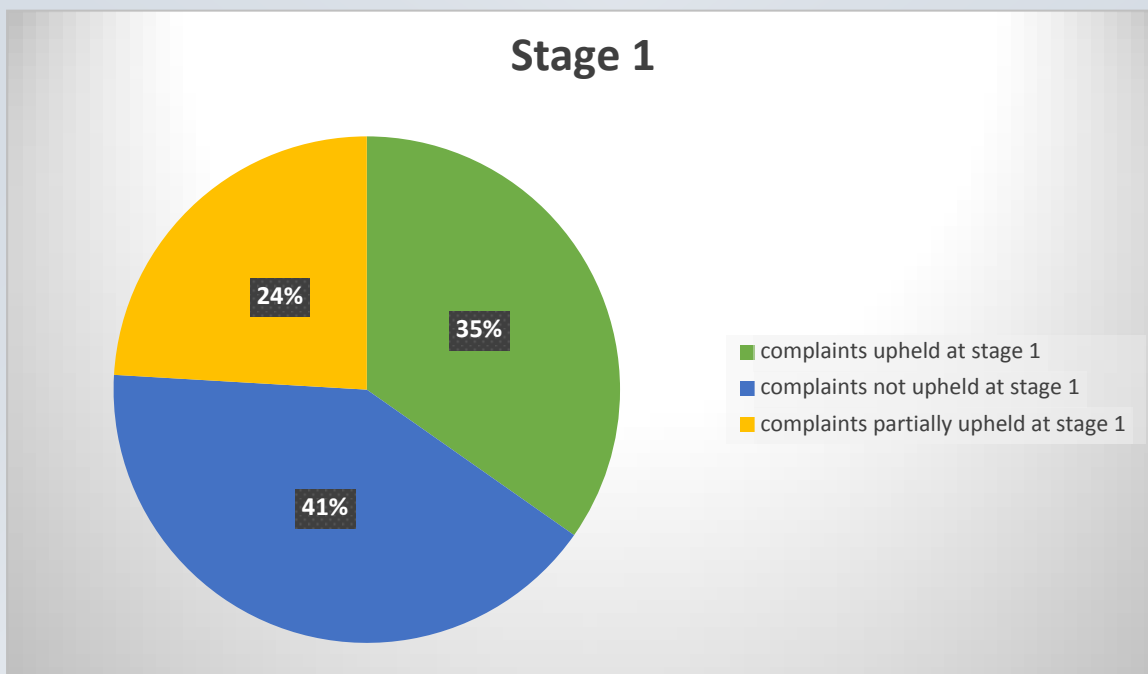
Number of complaints

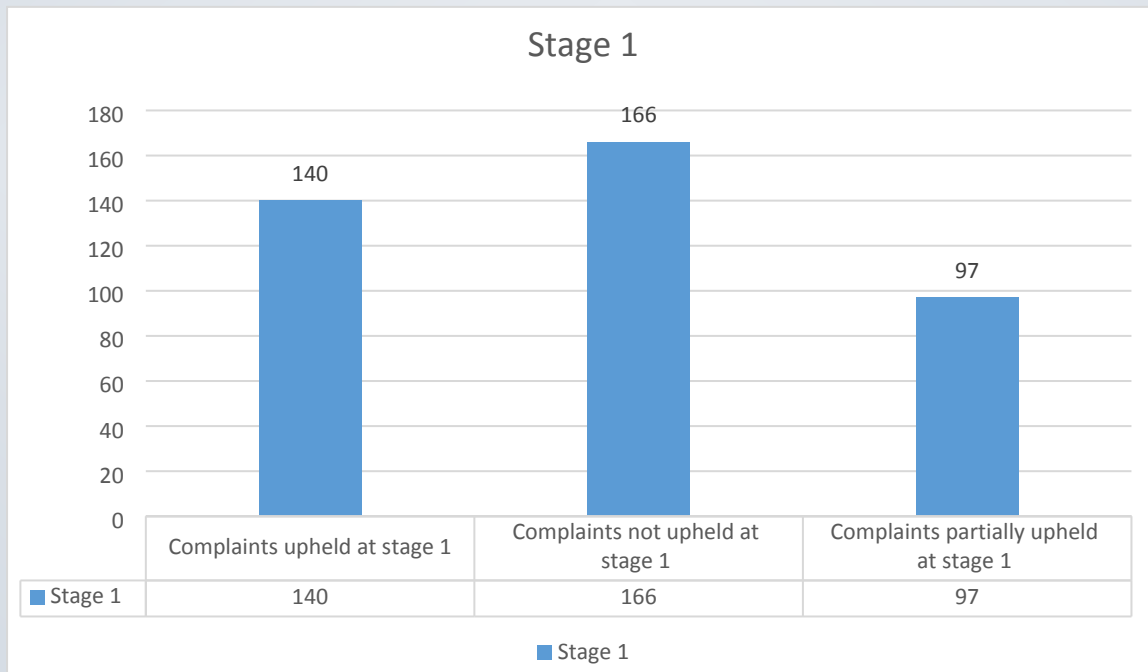|	Complaints closed at stage 1	Complaints closed at stage 2	Complaints closed after escalation
Number of complaints	403	84	11

403 complaints were closed at Stage 1 – 81%

84 complaints were closed at Stage 2 – 17%

11 complaints were closed after escalation – 2%

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Indicator 3, Stage 1 – Complaints upheld, not upheld and partially upheld

Stage 1

	Complaints upheld at stage 1	Complaints not upheld at stage 1	Complaints partially upheld at stage 1
Stage 1	140	166	97

Stage 1

- 35% complaints upheld at stage 1
- 41% complaints not upheld at stage 1
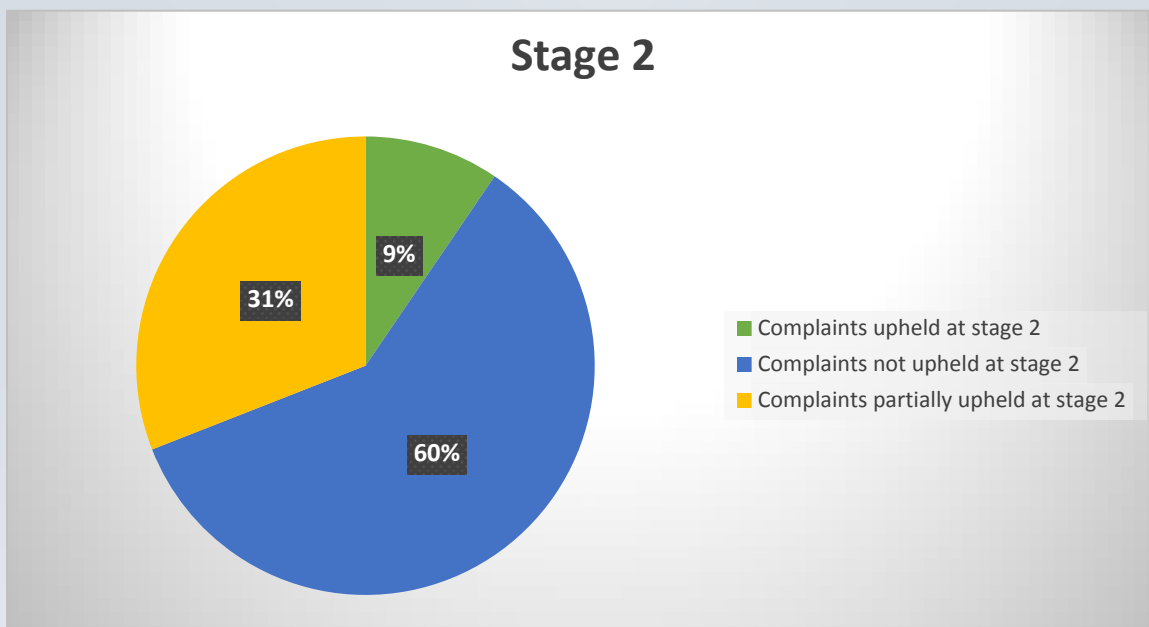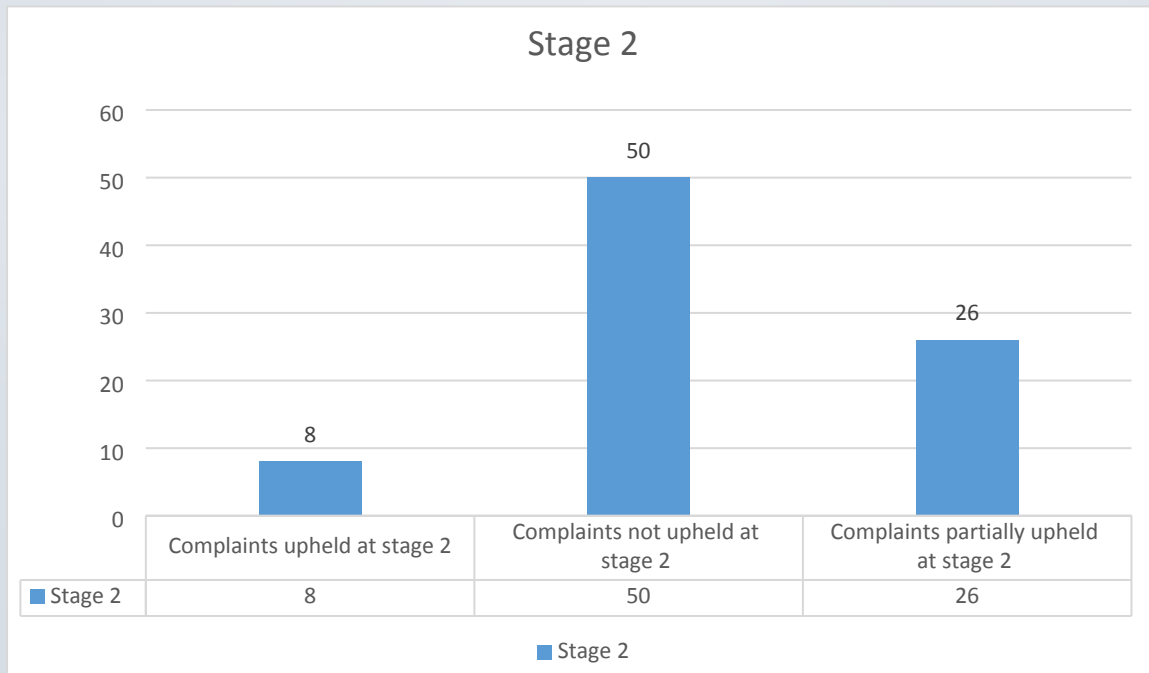- 24% complaints partially upheld at stage 1

140 complaints were upheld at Stage 1 – 35%

166 complaints were not upheld at Stage 1 – 41%

97 complaints were partially upheld at Stage 1 – 24%

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Indicator 3, Stage 2 – Complaints upheld, not upheld & partially upheld

Stage 2

	Complaints upheld at stage 2	Complaints not upheld at stage 2	Complaints partially upheld at stage 2
Stage 2	8	50	26

Stage 2

- Complaints upheld at stage 2 — 9%
- Complaints not upheld at stage 2 — 60%
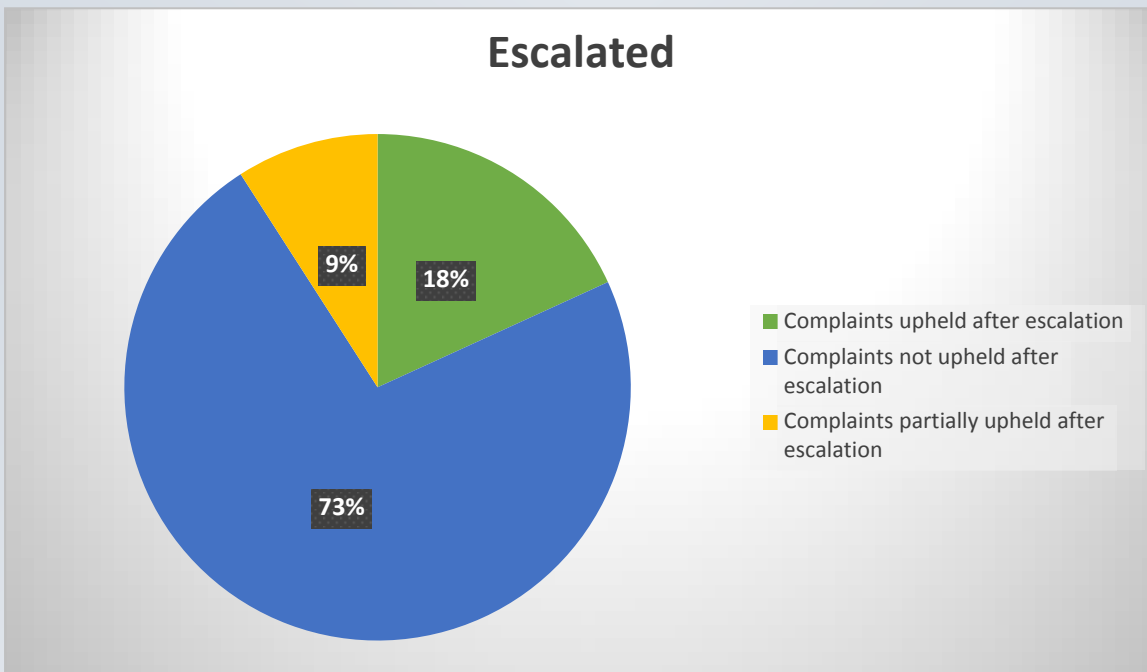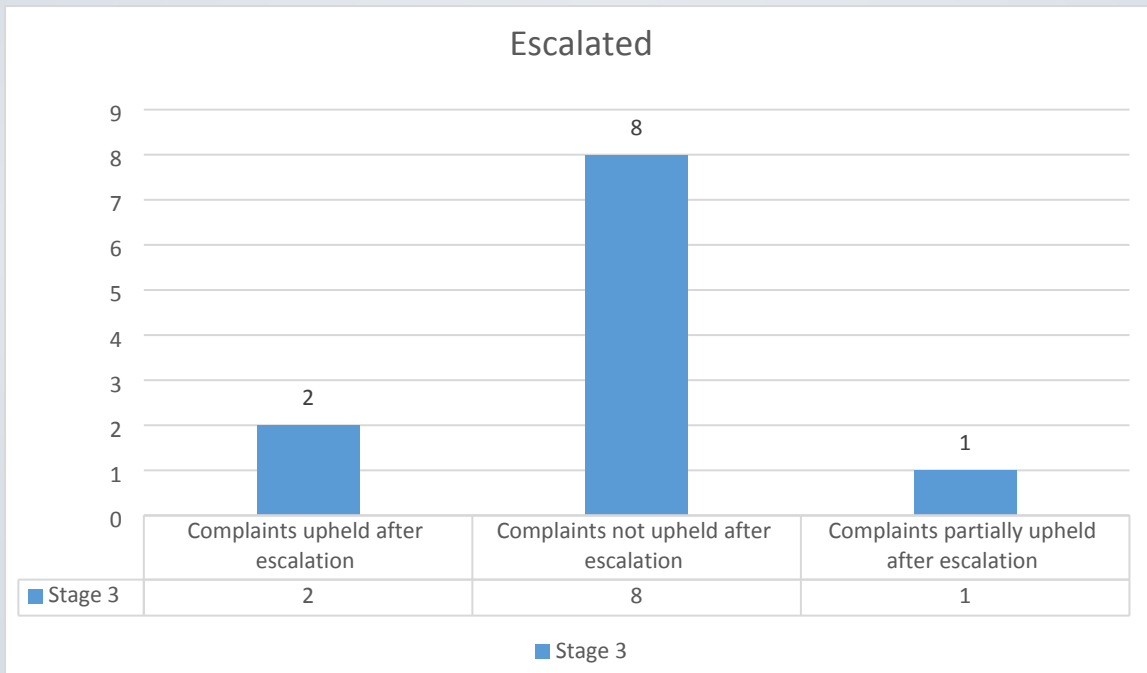- Complaints partially upheld at stage 2 — 31%

8 Complaints were upheld at Stage 2 – 9%

50 Complaints were not upheld at Stage 2 – 60%

26 Complaints were partially upheld at Stage 2 – 31%

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Indicator 3 –Escalated Complaints

Where the customer is dissatisfied with the stage 1 resolution.

2 complaints were upheld after escalation -18%

8 complaints were not upheld after escalation – 62%

1 complaint was partially upheld after escalation – 9%

Indicator 4 – Average Times

Stage 1 – We aim to respond to and close all Stage 1 complaints within **5 working days**. In 2017/2018, we closed **403** complaints at Stage 1, with a total sum of **2,488 working days** used to close them. Our average time to close a Stage 1 complaint was **6.2 working days**.

Stage 2 – We aim to respond to and close all Stage 2 complaints within **20 working days**. In 2017/2018, we closed **84** complaints at Stage 2, with a total sum of   **1,544 working days** used to close them. Our average time to close a Stage 2 complaint was **18.4 working days**.

After Escalation – in 2017/2018, we closed **11** complaints after escalation with an average time of **16.9 working days**.

Indicator 5 – Performance against Timescales

This indicator reports the number and percentage of complaints at each stage which were closed within the correct timescales of 5 and 20 days.

Stage 1 –In 2017/2018 we closed **403** complaints at Stage 1 with **275** of these within timescale or **68.2%**.   **3** were closed after an extension was agreed with the customer.

Stage 2 – In 2017/2018 we closed **84** complaints at Stage 2, with **63** of these within timescale or **75%**.   **3** were closed after an extension was agreed with the customer.

After Escalation – in 2017/2018, we closed **11** complaints after escalation, with **8** of these within timescale or **72.7 %**.

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Indicator 6 – Extensions to Timescales

This indicator reports the number and percentage of complaints at each stage which were closed after an extension to the 5 or 20 day timeline was authorised.

Stage 1 – in 2017/2018, we had a total of **3** complaints where an extension was authorised or **0.7%** of the total complaints closed.

Stage 2 – in 2017/2018, we had a total of **3** complaints where an extension was authorised or **3.6%** of the total complaints closed.

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Indicator 7 – Customer Satisfaction

Our Customer Contact Centre has developed an automatic customer satisfaction survey which is sent out to customers when a complaint is closed.   This survey aims to assess how the customer found the complaints process, rather than looking at the outcome of the complaint.

Overall, over half of our customers who completed the survey were satisfied or very satisfied with the process for making a complaint.

We report the feedback and any suggestions for improvements back to our quarterly complaints meetings, and look at how our complaints process could be improved.

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Indicator 8 – Learning from complaints – Reporting

Who looks at our complaint figures and trends?

Information about complaint figures and corrective action taken is reported regularly to senior managers and a quarterly report is submitted to the Strategic Management Team. This process ensures the appropriate level of scrutiny takes place.

We also report our complaint figures to the Scottish Public Service Ombudsman (SPSO) by submitting an annual return.

How we report Complaints Performance and Trends to our Customers

We publish the quarterly reports on our website: https://www.argyll-bute.gov.uk/do-it-online/comments-and-complaints

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Indicator 8 – Learning from Complaints – Improvements

No major policy or procedural changes were required in response to complaints in 2017 - 2018, however, a number of relatively minor changes or actions were taken in order to improve our service to customers. Whilst these improvements may have been minor in the overall scale of activities within the Council, it is our hope that they have made significant changes to the quality of service received by our customers. Some examples of these improvements include:

- New written procedure for how we deal with dog control notices
- Staff training to ensure that they are familiar with service standards
- Review of parking appeals procedure
- Collection routes updates
- Review of communication procedures for schools
- Advisory signage put in place

Complaints investigated by the SPSO

When a customer is not satisfied with our final response to a complaint, they can take it to the Scottish Public Service Ombudsman (SPSO) and ask for the complaint to be investigated.   The SPSO is the final arbiter for complaints about public services.

Complaints passed to SPSO during 2017/2018

20 complaints were received by the SPSO in 2017/2018. 8 were not progressed as they were either withdrawn, premature or out with SPSO's jurisdiction; in 7 it was found that appropriate action had been taken by the Council and the SPSO could not achieve anything more, 2 were resolved early; 3 were investigated with 1 being upheld, 1 not upheld and 1 was partially upheld.

The SPSO publishes reports about all the organisations it has involvement with – more information is available from: https://www.spso.org.uk/statistics-2017-18

Benchmarking 2017/2018

Performance indicators developed in partnership between the SPSO and the Local Authority Complaints Handlers Network (LACHN) help councils to understand their complaints handling performance in more detail.

They also ensure that councils are capturing consistent and directly comparable information to enhance their benchmarking of complaints performance with their peers. The indicators are linked to the core recording, reporting and publicising requirements within the model Complaints Handling Procedure (CHP).

For the purposes of benchmarking complaints, the LACHN has organised Local Authorities into 'family groups' which are similar to the 'family groups' of the Scottish Local Government Benchmarking Framework (SLGBF).

This ensures that comparison can be made between councils that are similar in terms of the type of population that they serve and the type of geographical area which they cover. The point of comparing like with like is that this is expected to lead to useful learning and improvement.

Highland Council and Scottish Borders Council are grouped with Argyll & Bute Council in both the LACHN and the SLGBF 'family groups' and as such are a reasonable comparison to benchmark in this report.

The performance of Argyll and Bute in 2017/2018 with respect to Indicators 1-5 is compared to the Scottish National Average, Highland, and Scottish Borders on the following pages:

Benchmarking 2017/2018

Indicator 1 – Complaints received per 1,000 of population

	Scotland	Argyll & Bute	Highland	Scottish Borders
Population	5,404,700	86,810	234,770	114,530
Total Complaints	58,483	498	2195	670
Complaints per 1,000 population	10.8	5.7	9.3	5.8

Indicator 2 – Closed Complaints

	National Average	Argyll & Bute	Highland	Scottish Borders
	% of Total	% of Total	% of Total	% of Total
Stage 1	88.7	80.9	90.6	75.4
Stage 2	8.5	16.9	5.9	20.8
Escalated	2.8	2.2	3.5	3.8

Indicator 3 – Complaints upheld/ not upheld / partially upheld

	National Average	Argyll & Bute	Highland	Scottish Borders
	% of Total	% of Total	% of Total	% of Total
Stage 1 Upheld /Partially Upheld	66.4	58.8	49.4	42.0
Stage 1 Not Upheld	33.6	41.2	50.6	58.0
Stage 2 Upheld / Partially Upheld	53.7	40.5	47.2	38.2
Stage 2 Not Upheld	46.3	59.5	52.8	61.8

Indicator 4 – Average time spent (in days)

	National Average	Argyll & Bute	Highland	Scottish Borders
Stage 1	8.0	6.2	13.1	4.0
Stage 2	23.7	18.4	19.5	17.7
Escalated	15.8	16.9	14.3	18.0

Indicator 5 – Complaints closed within timescale

	National Average	Argyll & Bute	Highland	Scottish Borders
	% of Total	% of Total	% of Total	% of Total
Stage 1	63.1	68.2	42.6	86.4
Stage 2	76.4	75.0	60.2	67.4
Escalated	60.7	72.7	75.3	53.8

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Conclusion

Argyll and Bute Council is committed to using feedback and listening to customers so we can continually improve the way we do things.

Our complaint handling is benchmarked with other local authorities and we will continue to work closely with the Scottish Public Services Ombudsman to ensure this best-practice is on-going.

Contact Us

If you would like to know more about our complaints procedure, please contact us.

Phone - 01546 605516

Post - Argyll and Bute Council, Kilmory, Lochgilphead, Argyll, PA31 8RT

Email - mailto: enquiries@argyll-bute.gov.uk

Online

https://www.argyll-bute.gov.uk/do-it-online/comments-and-complaints

http://www.argyll-bute.gov.uk/content/enquiriesform

Appendix 2

Department/Service	Stage 1			Stage 2		
	% Within Time	Total	No. Within Time	% Within Time	Total	No. Within Time
Chief Executives						
Strategic Finance		0	0	**100%**	1	1
Total		0	0	**100%**	1	1
Development & Infrastructure						
Roads and Amenity	**62%**	303	189	**65%**	34	22
Planning & Regulatory	**79%**	14	11	**82%**	17	14
Economic Development	**100%**	2	2	**100%**	1	1
Total	**63%**	319	202	**71%**	52	37
Customer Services						
Customer & Support	**88%**	43	38	**100%**	6	6
Facility	**88%**	8	7	**100%**	1	1
Governance and Law	**100%**	2	2	**100%**	7	7
Improvement & HR	**100%**	3	3	**100%**	2	2
Special Projects	**100%**	4	4		0	0
Directorate		0	0	**100%**	2	2
Total	**90%**	60	54	**100%**	18	18
Community Services						
Community & Culture	**64%**	28	18	**100%**	1	1
Children and Families		0	0		0	0
Adult Care		0	0		0	0
Education	**57%**	7	4	**75%**	12	9
Total	**63%**	35	22	**77%**	13	10

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Audit & Scrutiny Committee Work Plan 2018 - 2019

This is an outline plan to facilitate forward planning of reports to the Audit & Scrutiny Committee

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
18 December 2018					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	23 November 2018	
	Internal Audit Reports to Audit & Scrutiny Committee 2018/19 • Housing Benefit & Council Tax Reduction • Operating Manual (Oban Airport) • Marine Services (Jura Ferry) • Financial Planning • LEADER • VAT • Risk Management	Chief Internal Auditor	Quarterly	23 November 2018	
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	23 November 2018	
	Draft Annual Audit Plan	Chief Internal Auditor	Annual	23 November 2018	
	Council 6 Month Performance: April to September 2018	Executive Director of Customer Services	Bi-annual	23 November 2018	

Agenda Item 11

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Withdrawal from the European Union	Audit Scotland	One-off	23 November 2018	
	Corporate Complaints – Annual Report 2017-18	Executive Director of Customer Services	Annual	23 November 2018	
19 March 2019					
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	22 February 2019	
	Internal Audit Reports to Audit & Scrutiny Committee 2018/19 • Performance Management • School Fund Governance • Off-Payroll Working • Carefirst • Waste Management • Environmental Services	Chief Internal Auditor	Quarterly	22 February 2019	
	Internal Audit Report Follow-up	Chief Internal Auditor	Quarterly	22 February 2019	
	External Audit Annual Plan	External Audit	Annual	22 February 2019	
	Internal Audit 2018-19 Annual Plan	Chief Internal Auditor	Annual	22 February 2019	
	Year End Timetable	Head of Strategic Finance	Annual	22 February 2019	
	Council Performance Report – April to September	Head of Improvement & HR	Annual	22 February 2019	
	Audit Scotland – Local Government in Scotland: Financial overview 2017/18	Head of Strategic Finance	Annual	22 February 2019	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Treasury Management Strategy Statement and Annual Investment Strategy 2019/20	Head of Strategic Finance	Annual	22 February 2019	
	Internal Audit Charter and Internal Audit Manual	Chief Internal Auditor	Annual	22 February 2019	
	External Audit Status Report	Audit Scotland	Annual	22 February 2019	
18 June 2019					
	Council Strategic Risk Register Update	Chief Executive	Annual	24 May 2019	
	Internal Audit Annual Report 2018-19	Chief Internal Auditor	Annual	24 May 2019	
	Review of Code of Corporate Governance	Governance and Risk Manager	Annual	24 May 2019	
	External Audit Interim Controls Report	External Audit	Annual	24 May 2019	
	Local Government Benchmarking Framework Report	Head of Improvement & HR	Annual	24 May 2019	
	Unaudited Financial Accounts	Head of Strategic Finance	Annual	24 May 2019	
	2019/20 Scrutiny Plan	Chief Internal Auditor	Annual	24 May 2019	
	Local Government in Scotland: Challenges and Performance 2019	Head of Improvement & HR	Annual	24 May 2019	
	Internal Audit Summary of Activities	Chief Internal Auditor	Quarterly	24 May 2019	
	Internal Audit Reports to Audit Committee 2018/19	Chief Internal Auditor	Quarterly	24 May 2019	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	• Land & Assets Disposal • Organisational Culture • Self Directed Support • Early Years Provision 2019/20 Audits • Health & Safety • Business Continuity Planning • Additional Support Needs				
	Money Skills Argyll Scrutiny Report	Chief Internal Auditor	One-off	24 May 2019	
	Road Maintenance Scrutiny Report	Chief Internal Auditor	One-off	24 May 2019	
24 September 2019					
	Internal Audit Reports to Audit and Scrutiny Committee 2019/20 • Oban Airport • Care Home Provision • Cleaning in Council Premises • School Attendance • Winter Maintenance • LEADER	Chief Internal Auditor	Quarterly	30 August 2019	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
17 December 2019					
	Internal Audit Reports to Audit and Scrutiny Committee 2019/20 • Live Argyll - Operating Procedures • Building Standards • Grounds Maintenance • Pupil Equity Fund • Capital Monitoring • Social Care Contract Management	Chief Internal Auditor	Quarterly	22 November 2019	
17 March 2020					
	Internal Audit Reports to Audit and Scrutiny Committee 2019/20 • Legionella Improvement Plan • Logical Access • Risk Management • HR Automation • Cyber Security • Information Asset	Chief Internal Auditor	Quarterly	21 February 2020	

Audit & Scrutiny Committee Work Plan 2018 - 2019

Date	Report Designation	Lead Service	Regularity of occurrence/ consideration	Date of Reports to Committee Services	Additional Comment
	Registers				
16 June 2020					
	Internal Audit Reports to Audit and Scrutiny Committee 2019/20 • LiveArgyll – Performance Management • Interfaces & Reconciliations • Welfare Reform	Chief Internal Auditor	Quarterly	22 May 2020	

ARGYLL & BUTE COUNCIL	AUDIT AND SCRUTINY COMMITTEE
CUSTOMER SERVICES	

EXTRACT OF BUTE AND COWAL AREA COMMITTEE HELD ON 4 DECEMBER 2018

14.   ROTHESAY PAVILION

The Committee gave consideration to a report which provided members with an update on progress with the Rothesay Pavilion Adaptive Restoration and Extension Works project following completion of the funding package in September 2017 and the award of the construction contract to Messrs CBC Ltd (CBC) in November 2017.

Decision

The Bute and Cowal Area Committee considered and noted the progress update provided in the report.

(Ref: Report by Rothesay Pavilion Project Manager dated 4th December 2018, submitted)

The Council resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public for the following items of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraphs 8&9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

(a)   Rothesay Pavilion Exempt Appendix

The Committee gave consideration to an exempt financial information appendix pertaining to the Rothesay Pavilion.

Decision

The Bute and Cowal Area Committee:-

1. Considered and noted the in depth review and reconciliation of the financial and non-financial performance of the project following the new Rothesay Pavilion Project Manager appointment on 23rd July 2018, as set out within the Exempt Appendix 1 to the report.

2. Agreed that due to the significant level of financial support that the Council has committed to the Rothesay Pavilion Project and the lack of information available, that the report by the Rothesay Pavilion Project Manager be referred to the Audit and Scrutiny Committee for consideration in order to expedite a possible formal review of the project.

3. Agreed that due to the significant level of financial support that the Council has committed to the Rothesay Pavilion Project to recommend that a Bute and Cowal Area Committee elected member (or a substitute) and the Rothesay Pavilion Project Manager (or substitute) be appointed to attend all Rothesay Pavilion Charity Board meetings in their entirety.

4. Agreed that the Area Committee Manager would highlight the discussion held with the Chief Executive and appropriate Senior Officers.

(Ref: Appendix by Rothesay Pavilion Project Manager dated 4th December 2018, submitted)

ARGYLL AND BUTE COUNCIL　　　　**Bute and Cowal Area Committee**

DEVELOPMENT & INFRASTRUCTURE　　　　**4th December 2018**
SERVICES

Rothesay Pavilion Progress Report.

1.0　EXECUTIVE SUMMARY

1.1　The purpose of this report is to provide members with an update on progress with the Rothesay Pavilion Adaptive Restoration and Extension Works project following completion of the funding package in September 2017 and the award of the construction contract to Messrs CBC Ltd (CBC) in November 2017.

1.2　In September 2017 the final approvals were received for additional funding from the Heritage Lottery Fund, European Regional Development Fund and Historic Environment Scotland to allow the project to proceed.

1.3　Messrs CBC were awarded the construction contract and started work on site on 29th November 2017. The contract forecast completion date is 31st July 2019.

2.0　RECOMMENDATIONS

Bute and Cowal Area Committee is asked to consider and note:

2.1　The in depth review and reconciliation of the financial and non-financial performance of the project following the new Project Manager, Jonathan Miles's appointment on 23rd July 2018, as set out in Appendix 1 to this Report.

2.2　The progress update provided in this report.

ARGYLL AND BUTE COUNCIL   **Bute and Cowal Area Committee**

DEVELOPMENT & INFRASTRUCTURE   **4th December 2018**
SERVICES

Rothesay Pavilion Progress Report

3.0   INTRODUCTION

3.1   The project comprises the comprehensive refurbishment of the grade A listed Rothesay Pavilion which is a key component of the Council's ambitious and forward looking programme to assist regeneration and economic development in five of its waterfront towns; Campbeltown, Helensburgh, Oban, Rothesay and Dunoon.

3.2   The project will bring Rothesay Pavilion back into viable economic use by allowing a mix of new commercial, cultural and community activities to be provided within it. This will bring new life to this iconic building as well as stimulating wider regeneration and local economic activity.

3.3   On completion the building will be managed by Rothesay Pavilion Charity (RPC) who will lease the building from the Council for a term of 25 years. The charity's board comprises a mix of people who live on the island or who have links to it. In September 18 a new Executive and Artistic Director joined the RPC who will be responsible for managing the Pavilion and to ensure it has a sustainable future.

3.4   Full funding for the project was achieved in September 2017 and a construction contract was awarded to Messrs CBC on 29th November 2017 with a projected completion date of 31st July 2019.

4.0   RECOMMENDATION

 Bute and Cowal Area Committee is asked to consider and note:

4.1   The in depth review and reconciliation of the financial and non-financial performance of the project following the new Project Manager, Jonathan Miles's appointment on 23rd July 2018, as set out in Appendix 1 to this Report.

4.2   The progress update provided in this report.

5.0   DETAIL

Programme Delivery

5.1   As previously reported the main contractor CBC have been on site since 29th November 2017 and at the time of writing the percentage of programme passed on the original contract duration of 87 weeks is 49% (43 weeks).

5.2   The overall percentage of work completed equates to 31% at week 43. Key Work Package completion rates, are as follows:

- Early Enabling Works: 100%;
- Contractors Design Portion (CDP) – Product Design Approval/Manufacture: 76%;
- Roof Works: 39%;
- New Office Extension 1st Floor: 67%;
- Toilet/Shop Extension: 77%;
- Utilities: 0%;
- External Envelope Works: 26%;
- Internal Fit Out: 2%
- Caretakers House: 22%.

5.3   As reported above, 49% of the contract duration has expired, 27% of the contract sum has been expended which is 25% below the forecast for this stage of the project's delivery. With only 31% of the work completed to date and actual spend not having met forecast, it is reasonable to draw the conclusion the Main Contractor is behind programme and works have not progressed either at the same speed or in the same sequence as was originally planned. The main areas of delay in terms of spend, are as follows:

- Under croft / substructure works have progressed at a much slower rate than anticipated and unexpected site conditions have also led to changes in the lift pit design/works in the immediate vicinity;

- An initial delay in the provision of temporary protection to the roof (NB: due to the difficulty in securing a system that was technically compliant within the confines of the existing building structure and within affordability limits. NB: achieving compliance has had a knock on impact to follow on works; concrete repairs, replacement roof finish, roof lights, parapet works and cast stone copings;

- Cast stone replacement to facades; although noted in the programme as a 6 month activity commencing in April 2018, stone replacement works only commenced on site in late September 2018. This was a consequence of detailed stone surveys not happening in line with programme.

- Mechanical & Electrical Plant: the sub-contractor was appointed later than anticipated and given the value of the large pieces of MEP equipment this has had a significant knock on effect on cash flow.

Budget / Cost

5.4   The Projects' Anticipated Final Cost (AFC) remains within the approved budget, further detail on this is provided at Appendix 1 to this report.

5.5   There are cost pressures to keep contract provisional sums below estimated values, but these are being monitored and actively managed to minimise the overall risk to the Council.

Progress Monitoring and Reporting

5.6   Monthly Performance reviews are in place with the Design Team and Main Contractor to:

- Review actual expenditure against forecasts including adverse variances;
- Review, update and re-sequence the Main Contractor programme (currently revision E) including revisions to cash flow forecasts (currently Cost Plan 8b) to determine realistic and robust stage forecast completion dates and financial outturns;
- Revise provisional sum forecasts in line with the programme schedule so they are representative of contract variations, anticipated programme work package timescales and completion;
- Review the performance of the Design Team and Main Contractor in responding to requests for information and changes timeously and with day one quality.

5.7   Key Events over the reporting period:

- Main Roof: roof coverings to the Main and Fly Tower roofs are being progressed. Supply and installation of Air Handling Units to roof;
- First Floor: new Office accommodation: structural steelwork installed, roof framing completed and roof covering progressing;
- Upper Ground Floor: new brickwork walls to the back of stage toilets / changing areas largely completed;
- Upper Ground Floor: Tender of kitchen & bar provisional sum (para 5.9 refers). New opening & walls to the New Café have been installed;
- Lower Ground Floor (new Exhibition Space): new walls and beams completed and new window installation commenced;
- Lower Ground Floor (Under croft): reducing existing ground level to accommodate new lift and Gents/Ladies WC's and Staff room area: work in progress – rebuild to under croft walls, new floor slabs and installation of drainage completed;

- Lower Ground Floor (Shop): demolition of existing external wall to create larger footprint work in progress;
- Interior (General): Installation started of Building Engineering Services (BES), with insertion of pipe hangers and cable trays to the soffits as part of first fix. Structural alterations have progressed throughout the building. Commenced ceilings & partition installation. Injected Damp Proof works to main building completed;
- Exterior Building Fabric: stone removal ongoing and new stonework replacement works commenced;
- Caretakers House: new windows installed. Interior strip out progressing and interior fit out works commenced;
- Main Contractor Design submissions of Crittall Windows, Cast Stone, Icon Fabrications and Heritage roof light is well advanced;
- Design of structural steel connections, roof lights, Crittall windows, curtain walling, Mechanical & Electrical items are all progressing.

5.8   Photographs are provided in Section 6.0 to substantiate progress reported.

5.9   Agreement has been reached with CBC regarding the treatment of the site hoardings, main sign board and visualisation image of the main staircase during the period under review. Progress is outlined below:

- Main Site Team & Funders signboard: installed;
- Visualisation netting banner of the main staircase around the proposed café area attached to the scaffold in mid-August;
- Agreement reached with CBC to provide 5 areas of Hoarding for the Charities use;
- Monthly site visits have been arranged in advance with the Heritage Officer on site in the accompaniment of the Project Manager/Architect;
- CBC have also made available two additional Hoarding panels for local schools to display Art work. Rothesay Community Campus Deputy Head engaged – work in progress.

5.10   Key Events over the next reporting period:

- Progression and completion (subject to weather) of Main roof and Fly Tower roof coverings. Auditorium and Fly Tower roof light enabling works including installation of new roof lights;
- Progression of steelwork at roof level to support vent plant;
- Lower Ground Floor: Shop - structural alterations completed to create new enlarged floor area;
- Lower Ground Floor: progression of ground works to main entrance and Lift Pit areas;
- Building Engineering Services: progression of works;
- Production and further deliveries of cast stone including ongoing replacement works;
- Caretakers House: continue with internal fit out.

5.11 A strong partnership approach has been forged between the Pavilion's Project Manager, Jonathan Miles and the Charity's Artistic Director (AD)/Chief Executive Officer (CEO) role shared by Jackie Shearer and Julie L Tait, who took up the post on 3rd September 2018.

5.12 With a background in arts and commercial management, community and business development, they been working closely with the Project Manager to ensure effective communications, reporting and decision making. They are reaching out to representatives and stakeholders across local and national cultural, tourism, economic development sector building relationships and connections to inform programming, future building operations and strategic communications.

5.13 Key priorities short term are to deliver and report progress on the HLF heritage activity plan, re-engage with the community and potential user groups to ensure the development of a cultural programme is collaborative and responsive to the needs of the local community and visitors. A new marketing strategy will include:

- a refreshed website;
- regular social media content and information on Pavilion hoardings to communicate progress towards opening;
- building wider interest in the Pavilion, i.e. encouraging greater engagement, and supporting fundraising activity essential for the Pavilion's long-term sustainability.

5.14 The Rothesay Pavilion Charity have a capital fundraising target of £400,000 to achieve. The Council agreed to underwrite this amount pending successful funding applications by the charity. Good progress is being made by the charity who have been successful in securing £326,547 of this target. This is made up as follows:

Foyle Foundation	£40,000
Garfield Weston	£50,000
Wolfson	£25,000
Barcapel Foundation	£5,000
Robertson Trust	£100,000
West Coast Foundation (Multi-Media Studio 1st floor)	£106,547

5.15 As part of CBC's commitment to providing community benefit for the duration of the contract they have employed both a cleaner and bricklayer from the local market.

5.16   Agreement has been reached with the Rothesay Community Campus, CBC and Project Manager regarding the following curriculum support activities:

- Work Placement(s): (Nov 18) site visits for students showing interest in construction profession and trade placements;
- Career Day: (Feb 19) talking to pupils about possible careers in construction. To include CHORD Programme & Project Manager, Elder & Cannon, Project Architects;
- In Service Day: (Nov 18) Talks and presentations on specific elements of construction to support class projects or elements of the curriculum including shadowing trades on site;
- Site visit (Nov 18) organised guided tours for groups of 12 pupils/students to explain the project and monitor progress during the contract period.

6.0   PROGRESS PHOTOGRAPHS

1.0   EXTERNAL: Existing Roof Areas:

Looking East (facing Argyle St): Canopy Roof over new First Floor Exhibition/Function Area.

Looking East (facing Argyle St): Roof over Fly Tower/Stage Area (NB: Temporary waterproof protection).

Looking South: Roof Over Auditorium/Main Hall General View (NB: Exposed Roof Trusses to Auditorium Roof Light & Ventilation Plant).

Looking South: Roof Over Auditorium/Main Hall along the West Gutter - General view (NB: Ventilation Plant insitu).

Looking South along the East Gutter (Argyle St.): Work in Progress – Laying of Roof/gutter membrane and Insulation including rebuilding of parapet wall.

1.0 Existing Roof Areas (Continued):

Looking West: new Roof over First Floor Offices & RPM Studio.

Looking South: New Roof over First Floor Offices & RPM Studio (NB: Work in Progress - roof framing at the West end remains to be completed).

Looking North: Caretakers House Roof (NB: Fly Tower south elevation visible in background).

Looking South: General View of Caretakers House Roof (NB: gutters yet to be replaced).

2.0 Building Fabric Elevations:

East Elevation (Argyle St.) – Front Elevation
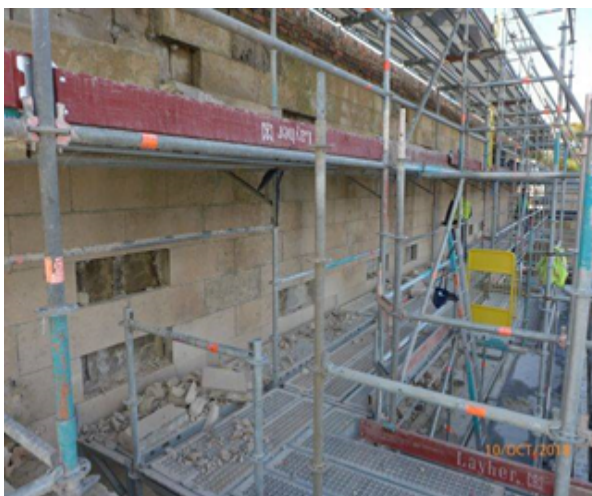(NB: Visualisation Banner insitu).

West Elevation – Rear Elevation of Building.

North Elevation (Mackinlay St.).

 North & West Elevations – Caretakers House
(NB: new windows in situ).

East Elevation (Argyle St.) – (NB: Work in
Progress: defective cast stonework removal in
progress).

East Elevation (Argyle St.) – NB: Work in
Progress: defective cast stonework replacement
with new stone).

10

North Elevation (Mackinlay St.): Temporary window boarding removed for examination of cast stonework and backing wall.

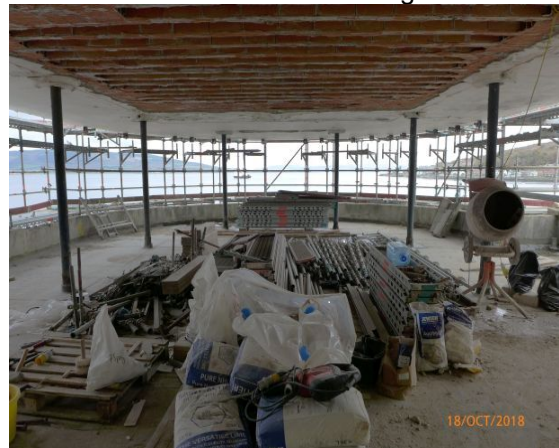## 3.0 INTERNAL: First Floor

New Offices: General view looking East

New Offices: General view looking West

Lift Circulation Area: General view

New Exhibition/Function Space: Looking East (Argyle St.)

4.0 Upper Ground Floor

Auditorium/Main Hall: General View of Scaffold and rainwater protection.

Auditorium/Main Hall: (NB: additional rainwater protection in situ below main roof light) – lack of over roof is proving challenging due to adverse weather conditions.

Spill Out/Circulation Area: General Views (NB: Work in Progress – service pipework and trunking).

Back Stage: Changing/WC Area: General View (NB: Work in Progress: new dividing walls visible including installation of service pipework).

Stage Area: General View of Scaffold (Crash Deck) below existing roof light.

5.0 Lower Ground Floor

Shop Area (NB: Work in Progress: temporary property in preparation for demolition of existing external wall – new structural steel beam visible at ground level).

Shop Area: Work in Progress to create new extension to increase Shop floor area.

Exhibition Space: General View (NB: Work in Progress: new openings formed to increase foot print & installation of service pipework).

Exhibition Space (East Elevation – Argyle St.): Removal of existing external windows and installation of new Crittall windows.

5.0 Lower Ground Floor (continued):

Exhibition Space (East Elevation – Argyle St.): Removal of existing external windows and installation of new Crittall windows.

Stage loading bay Area (Adj. Stage Area) (West/Rear elevation): enlarged opening to improve access.

Auditorium Under croft Area: (NB: Work in Progress: new concrete floor slab insitu for creation of new Staff/Utility/stair area).

Green & Communication Rooms: (NB: Work in Progress - bottom track installation for creation of new partition walls).

6.0 Caretakers House

First Floor: General View.

Ground Floor: General View.

6.0 Caretakers House (continued):

South Elevation: new window to first floor office area now installed.

West elevation: new window to stair now installed.

7.0 CONCLUSION

7.1 The Rothesay Pavilion Adaptive Restoration and Extension Works contract commenced on site on 29th November 2017 and will proceed until refurbishment works are completed by the 31st July 2019 or shortly thereafter. The total cost of the project is fully funded and applications for the drawdown of funds are being made on a monthly/quarterly basis to the various funding partners involved in the project.

7.2 That said the project is not without its' challenges and a number of issues are the subject of ongoing consideration. E.g. Kitchen/Bars/Café specification and costs. Nevertheless it can be confidently stated that the Councils' investment in the Pavilion will help to address the material state of the Town Centre waterfront; improve the local infrastructure; ensure that the immediate area "works" as the marine gateway into the Island of Bute. It will also provide an "anchor point", for visitors and the local community alike, taking a building that was no longer fit for purpose and transforming it into a venue and facility fit for the 21st century.

7.2 No change to the anticipated final cost of the project is forecast despite an adverse variance in the main contractor's cash flow, including the noted risk of not meeting the contract completion date, as explained in Section 5.

7.3 The risk log has been updated and the project risks are being monitored and mitigating actions managed. Time and cost risks are being noted and actively managed to reduce the overall risk to the Council.

7.4 In addition RPC will continue to make funding applications to reduce the Council's underwriting commitment.

7.5 Partnerships funding matches the revised project cost as reported at permission to start.

7.6   The Charity are continuing to look at further bids for funding with a view to closing the funding gap of £73k against their contribution target of £400k.

8.0   IMPLICATIONS

8.1 Policy	This project forms part of the approved CHORD programme that supports outcomes 1, 2 and 3 of the Single Outcome Agreement. Once completed and during the construction phase the Pavilion will help boost the local economy, create a key piece of modernised infrastructure that can be made use of by the local community and create employment and skills opportunities for the people of Bute.
8.2 Financial	The project is now fully funded however fund raising continues with the RPC to reduce the underwriting by the Council. Although it is noted good progress has been made to reduce the Council's liability.
8.3 Legal	None.
8.4 HR	None.
8.5 Equalities/Fairer Scotland Duty	On completion the building will be fully accessible to facilitate disabled people's participation and use under the Equalities Act 2010 (formerly Disability Discrimination Act 1995).
8.6 Risk	Exceeding budget and programme. This will be closely monitored during the contract period.
8.7 Customer Service	None.

Executive Director of Development & Infrastructure Services: Pippa Milne
Policy Lead: Cllr G Mulvaney

15th November 2018

For further information contact: Jonathan Miles, Project Manager.
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Agenda Item 12c

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