

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CROSS CUTTING
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	FEES AND CHARGES
AUDIT DATE	MAY 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

Argyll and Bute Council uses fees and charges to supplement the income the Council raises locally through Council Tax. Legislation and guidance sets out how Councils can apply charges, but the Council has the discretion to set charges in many areas. Legislation prohibits charging in other areas such as Children's Education.

The Council provides a large number of products and services, many of which are chargeable. Although not an exhaustive list these include planning applications, car parking, leisure facilities, airport charges, piers and harbours, crematorium charges and many more.

Fees and charges are reviewed and agreed as part of the Council's annual budget setting exercise. The fee income for 2017/18 is budgeted at approx £20m.

2. AUDIT SCOPE AND OBJECTIVES

The main objectives of the audit:

- Review Policy and Procedures
- Carry out walkthrough testing on a sample of fees and charges from agreed Council schedule through to charging
- Review key factors considered when setting fees and charges

Control Objective	Control Objective Assessment
Authority - Fees and charges are approved and authorised and appropriate governance arrangements in place	The Council approves its fees and charges annually at a meeting of the full Council. Governance arrangements include review by the Policy and Resources committee and full council

Occurrence - Sufficient documentation exists to evidence compliance with policies and procedures	With the exception of the formal budgeting pack, there was no evidence of any internal process or policy document to support the fees and charges process
Completeness - Documentation is accurately and fully maintained	Documentation reviewed was found to be generally sound, however, minor errors were identified that have been subsequently rectified
Measurement - Fees and Charges are applied in line with agreed schedules	Fees and charges were found to apply in line with agreed schedules, however, isolated instances of non-compliance were evident.
Timeliness - Fees and Charges are updated and communicated in a timely manner	Fees and charges are updated and published on a timely manner, however, internal communication of this information is weak.
Regularity - Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff.	Fees and charges are on the Council's website accessible by the public. The format of the fees and charges schedule is not set out in an easily readable format.

3. RISKS CONSIDERED

- Procedures not documented
- Fees and Charges not charged as agreed
- Reputational damage to Council

4. AUDIT OPINION

The level of assurance given for this report is Reasonable.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Review Policy and Procedures

Policy

- The Council sets out its charging policy for Fees and Charges on the Council's website, the schedule informs the Public what services they need to pay for and how much they will cost. The charges are agreed at a full meeting of the Council in February of the relevant year.
- It was noted from the Audit Scotland report on "Charging for Services" 2013 that it was recommended that Councils should have clear policies in place for charges and concessions. Whilst Argyll and Bute Council have in place a separate concessionary charge for leisure facilities there was no evidence of an overarching Council policy for fees and charges in regard to Service objectives.
- It was noted that current fees and charges were agreed at the February meeting of the full Council, however an amendment was required to be made at the April meeting in respect of VAT categorisation errors.

Procedures

- Fees and charges are prepared on an annual basis however there was no evidence of a formal procedural document setting out the processes involved. Discussions with Strategic Finance and Service personnel indicated that they are aware of the various generic tasks involved in the overall process.
- Strategic finance are responsible for collating the fees and charges schedule and submitting it to full Council for their agreement.
- Roles and responsibilities surrounding the preparation of the fees and charges have not been assigned and discussions with services indicate that there is uncertainty as what input is expected from service personnel.
- Once Council have agreed the schedule of fees and charges this is uploaded onto the Council's website. It was noted that there was no formal process that informed services that Council have agreed fees and charges although a communication is provided to inform staff as to Council decisions.

Carry out walkthrough testing on a sample of fees and charges from agreed Council schedule through to charging

Nine services were selected and testing was carried out on a range of individual charges. The methodology employed included checking via desktop and where required on site visits. In general, charges applied were aligned to authorised and agreed rates, however, some minor errors were found which have been subsequently rectified.

Review Key factors considered when setting fees and charges

- It was noted from the budget pack presented to full Council in February 2017 that the general increase to fees and charges was proposed at 3% for 2017-18. This was the increase applied each year between 2013-14 and 2015-16, with a 6% increase applied in 2016-17. With the exception of some specific charges, this has tended to be the standard approach.

- The Audit Scotland report on “Charging for Services” 2013 included a number of key recommendations in regard to key factors that should be considered prior to the setting of fees and charges namely;
 - Councillors take a lead role in setting aims and priorities for charges and concessions
 - Council’s should compare their charges with other providers and make use of benchmarking reports where practical e.g. Leisure services, Crematoria, Waste management, Social Care
 - Council’s should explain significant variances as a result of benchmarking process.
 - Councils should review their overall approach to charging and concessions to ensure that service charges comply with corporate guidelines
 - Councils should review the impact of charging decisions on income to ensure that unintended consequences do not occur.
 - Councils should understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges.
 - Councils should consult service users, community planning partners, residents and other stakeholders over proposed charges.

Councillors take a lead role in setting aims and priorities for charges and concessions

- A document was available from Strategic Finance which was prepared for members in December 16 as part of the 17/18 budget setting exercise. The document considered:
 - Expected increase in total income for scenarios based on 3, 4, 5 and 6 % increase in charges across all services.
 - Expected increase in total income for the 6 main services based on 3, 4, 5 and 6 % increase in charges.
 - Impact review of all fees and charges income generated as at the end of October last year versus this year to assess whether the increase has meant a reduction in demand.
 - A review of charges that were increased significantly last year due to service choices

A review of the paper noted that whilst it considered the impact on income on key services for the various scenarios there was no evidence that consideration had been given to the service aims and priorities.

Council's should compare their charges with other providers and make use of benchmarking reports where practical e.g. Leisure services, Crematoria, Waste management, Social Care

- It was not evidenced that the council compares charges with other providers and that the fees and charges process is generally limited to incremental percentage increases.
- It was noted that Strategic Finance prepared a benchmarking analysis of Crematorium charges between Argyll and Bute and West Dunbartonshire Council for the period 2015/16. There was no evidence that a benchmarking exercise had been carried out for other relevant services, however, a review of the minutes of the Transformation Board of February 2017 noted that Argyll and Bute Council intend to collaborate with other Councils via the use of consultants to “ analyse the various charging rates and concessionary regimes in place across UK local authorities, to identify innovative income generation projects in order to highlight additional income opportunities and best practices for individual local authorities to consider.”

Council's should explain significant variances as a result of benchmarking process

- It was not evidenced that council explains significant variances via benchmarking .The paper noted above regarding Crematorium charges highlighted the differences in charges between the two Councils however there was no reference within the paper that explained why these differences occurred.

Councils should review their overall approach to charging and concessions to ensure that service charges comply with corporate guidelines

- There was no evidence of a review that ensured that all fees and charges complied with corporate guidelines

Councils should review the impact of charging decisions on income to ensure that unintended consequences do not occur

- Part of the revenue budget monitoring process includes budget holders and finance contacts discussing reasons for any deviation or variation from planned budget. Unintended consequences i.e. reduction in volume or reduced income should be captured at this stage with a process in place to record these variances via the engagement log and consequently as a cost or demand pressure. This process is acknowledged as being in place however the sample did not provide any supporting evidence.

Councils should understand the costs of providing services, including unit costs, subsidy, and the costs of collecting charges

There was limited evidence of comparing different models of delivery against a baseline e.g.

- Cost Pricing the service for income generation,
- Understanding cost behaviour at different levels of demand,
- Different cost drivers and cost units.
- Forecast income levels at different levels of output or activity,
- Linking income to performance targets.
- Peak or off peak charging and contribution to fixed costs.

Councils should consult service users, community planning partners, residents and other stakeholders over proposed charges

- It was noted in the revenue budget pack 2016/17 presented to members, that consultation was carried out with various groups within the community in arriving at Service choices which included Fees and Charges, however, there was no evidence of consultation with other bodies having been carried out prior to the setting of the 2017/18 Fees and Charges.

Observations

We have also highlighted to management the following observations which have been identified during the review. Although not included in the scope the matter was brought to auditor's attention during the audit and either indicates a potential risk exposure and /or could be considered as a matter of good practice and therefore noted for information and completeness:

- Discussions with Development and Infrastructure staff indicated that the timeframe between Council agreeing charges and the department being able to update systems and carry out necessary associated admin functions by April 1st was extremely challenging and has led to error.
- It was noted from discussions and via sample testing that the provision of cost centre and account code information would assist in arrangements for processing fees and charges.

6. CONCLUSION

This audit has provided a reasonable level of assurance, Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 3 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Strategic Finance and service user staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Setting Fees and Charges		High/ Medium or Low		
Limited evidence exists in respect of reviewing key factors when setting fees and charges.	Failure to consider key factors prior to the setting of Fees and Charges may lead to the Councils objectives not being achieved and potential income opportunities not being maximised.	High	Work has already commenced in respect of some of the key factors outlined in the report however requires to be further developed. Each element will be considered and actioned, as appropriate, as part of the 18/19 Budget preparation exercise.	Head of Strategic Finance February 2018
2. Procedures and Processes				
No evidence of any internal process or policy document to support the fees and charges process.	Failure to document formal procedures and processes may lead to the loss of skill and/or knowledge when staff members leave resulting in inefficient service delivery.	Medium	Policy and Guidance Document will be prepared.	Finance Manager – Departmental Support November 2018

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
3. Roles and Responsibilities				
It was not evidenced that authorities, roles and responsibilities are clearly identified and assigned.	Failure to clearly define roles and responsibilities may lead to ineffective performance	Medium	Roles and Responsibilities will be clearly defined within Policy and Guidance document.	Finance Manager – Departmental Support November 2018



Contact Details

Name David Sullivan

Address Whitegates, Lochgilphead, Argyll, PA31 8RT

Telephone 01546 604125

Email David.sullivan@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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