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

Contact Details

Internal Auditor: *Abbie Macalister*

Telephone: *01546 604272*

e-mail: *abbie.macalister@argyll-bute.gov.uk*

www.argyll-bute.gov.uk

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.

Key Findings

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

	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
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.

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.