



LiveArgyll  
Internal Audit Report  
February 2022  
FINAL

LiveArgyll  
Budget Monitoring

Audit Opinion: High

	High	Medium	Low	VFM
Number of Findings	0	0	1	0

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## 1. Executive Summary

### Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, we have undertaken an audit of LiveArgyll's system of internal control and governance in relation to Budget Monitoring.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with LiveArgyll officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate LiveArgyll 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. LiveArgyll was established by the Council and commenced trading on 2 October 2017. It is a charitable company limited by guarantee governed by its articles of association. LiveArgyll is responsible for services including libraries, leisure facilities, Active Schools, archives, museum, sport development, halls, community centres and community lets. LiveArgyll's total annual budget for 2021-22 is £6,272,767.
5. The Council provides internal audit services to LiveArgyll to support their governance framework.
6. The Council provides support services to LiveArgyll as outlined in the Service Level Agreement. This includes the following financial services.
  - VAT and indirect tax advice
  - general ledger services
  - budget preparation and monitoring
  - treasury management

### Scope

7. The scope of the audit was to assess the adequacy and effectiveness of LiveArgyll's budget monitoring arrangements as outlined in the Terms of Reference agreed with LiveArgyll's General Manager, on 1 November 2021.

### Risks

8. The risks considered throughout the audit were:
  - **LiveArgyll Risk Register:** Income and Expenditure exceeds and/or does not align to agreed resource levels
  - **Audit Risk 1:** Failure to have robust budget monitoring processes in place

- **Audit Risk 2:** Roles and responsibilities have not been clearly defined
- **Audit Risk 3:** Financial reporting is not carried out in line with financial arrangements

### 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 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. A sound system of control designed to achieve the system objectives is in place and being applied consistently.

### Recommendations

11. We have highlighted low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
  - Consideration should be given to reviewing the Revenue Budget Monitoring Guidance to ensure it reflects current working practices
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

	<b>Control Objective</b>	<b>Link to Risk</b>	<b>Assessment</b>	<b>Summary Conclusion</b>
1	Budget monitoring procedures and processes are in place and aligned to Financial Regulations	Audit Risk 1 Audit Risk 2	High	Comprehensive financial and security regulations are in place and provide clarity for financial roles and responsibilities, including budget monitoring. The Revenue Budget Monitoring Guidance provides information for budget holders and operational contacts and is aligned to the Financial Regulations.
2	Budget Monitoring is carried out and is consistent with established procedures and processes	LA Risk Register Audit Risk 1	High	Processes and procedures are in place to provide budget holders with the information and support they require to ensure they can effectively monitor the cost centres within their services. The COVID pandemic and resultant restrictions led to the closure of

				LiveArgyll facilities and the lack of transactional activity meant that high level budget monitoring was carried out. Budget monitoring and budget engagement meetings will recommence when LiveArgyll facilities are fully operational.
3	Financial monitoring is reported regularly, in line with financial arrangements, to relevant officers and Board members	Audit Risk 3	High	Financial monitoring reports, detailing the overall financial position are regularly presented to the Board, the Finance and Audit Sub Committees and the Senior Management Team.

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

### 3. Detailed Findings

#### Budget monitoring procedures and processes are in place and aligned to Financial Regulations

15. The LiveArgyll Financial and Security Regulations provide the framework for LiveArgyll's financial affairs, detailing roles and responsibilities in relation to financial matters, budget monitoring and resource transfers. It also provides an overview of the reporting structure.
16. LiveArgyll's Revenue Budget Monitoring Guidance is aimed at budget holders, operational contacts and the Council's Strategic Finance contact. It is a comprehensive document, which details roles and responsibilities, budget monitoring reports and a budget monitoring timetable for the financial period. The Revenue Budget Monitoring Guidance aligns to the Financial and Security Regulations.
17. Staff have access to the Revenue Budget Monitoring Guidance and when necessary, development/information sessions are provided to ensure budget holders and operational contacts are kept up to date with changes.
18. The three Business Managers, who are members of the Senior Management Team (SMT), are budget holders and are responsible for managing, monitoring and controlling expenditure within the financial allocation provided in the revenue budgets, and report to the General Manager on their allocated cost centres. The General Manager reports to the Board and the Finance and Audit Sub Committee the level of resources available to LiveArgyll and the overall financial performance.

#### Budget Monitoring is carried out and is consistent with established procedures and processes

19. Processes and procedures are in place to provide budget holders with the information and support they require to ensure they can effectively monitor the cost centres within their services. As required within the Service Level Agreement between LiveArgyll and Argyll & Bute Council (the Council) each budget holder is provided with the support of a dedicated finance contact within the Council.

20. The Council provide each LiveArgyll budget holder and operational contact with a monthly financial monitoring report. This report provides an overview of the year to date financial summary for each cost centre/grouped cost centres along with a more detailed comparison of actual income and expenditure against budget. Expenditure is categorised into high level subjective accounts such as employee costs, premises cost and third party payments. Income is more detailed and is categorised by source/activity.
21. In addition, on a monthly basis, the Council's Finance contact issues each budget holder with a year to date transaction report and a monthly budget monitoring report for each cost centre /grouped cost centres, this provides a full breakdown of the income and expenditure.
22. Variances and issues arising from these reports would normally be discussed during structured engagement meetings. As a minimum, budget holders are asked to confirm monthly that there are no material deviations from the annual budget and highlight any known or anticipated cost or demand pressures. However, the COVID pandemic and resultant restrictions led to the closure of facilities and lack of transactional activity meant that budget monitoring at individual cost centre level and budget holder/finance contact engagement were considered unnecessary at that time. High level financial modelling was undertaken by the Company Accountant and discussed with the Senior Management Team, budget holders and General Manager. The Company Accountant became the main contact for budget holders, undertaking the budget monitoring tasks/duties normally carried out by the Council Strategic Finance contact. This will continue until the financial year end as services within the LiveArgyll facilities resume.
23. High level budget holder engagement meetings are currently carried by the Company Accountant and discussions have taken place to reintroduce the budget holder engagement meetings with the Council's Strategic Finance contact.
24. Previous reviews and continuous monitoring found that prior to Covid-19 budget monitoring processes were in place including engagement meetings with budget holders.

**Financial monitoring is reported regularly, in line with financial arrangements, to relevant officers and Board members**

25. Financial monitoring is reported at a number of different levels including:
  - Strategic Management Team (by the Company Accountant)
  - Finance and Audit Sub Committee (by the General Manager)
  - The Board (by the General Manager)
26. Finance is a standing agenda item and all committees receive reports which are consistent with the responsibilities and requirements.



## Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<b>Budget Monitoring Guidance</b>  Consideration should be given to reviewing the Revenue Budget Monitoring Guidance to ensure it reflects current practice	Revenue Budget Monitoring Guidance may not align to current work practice	Guidance will be reviewed and updated where deemed appropriate	Company Accountant  30 May 2022

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
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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.
<b>VFM</b>	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).



## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	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.
<b>Substantial</b>	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.
<b>Reasonable</b>	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
<b>Limited</b>	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.
<b>No Assurance</b>	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.