

Argyll and Bute Council  
Internal Audit Report  
February 2024  
FINAL

# Piers and Harbours

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	0	8	0

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## 1. Executive Summary

### Introduction

1. As part of the 2023/24 internal audit plan, approved by the Audit & Scrutiny Committee in March 2023, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Piers and Harbours.
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. 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 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. Argyll & Bute Council (the Council) own and manages a number of piers and harbours. As a Statutory Harbour Authority the Council is responsible for running the 39 operational ports and harbours throughout Argyll, including the 7 main piers and harbours. In addition the Council operates 4 lifeline ferry service to island communities of Jura, Lismore, Luing and Easdale. Piers and harbours across Argyll see a lot of activity during the course of the year both through commercial and leisure use. Due to the location of Argyll, one of the main industries is fishing, along with the transportation of goods, vehicles and passengers via the sea. There are also many passenger ferries pass throughout our ports and harbours.
5. The Council, as a Statutory Harbour Authority is empowered to levy dues under Section 26 of the Harbours Act 1964 and Sections 25-33 of the Harbours, Docks and Piers Clauses Act 1847. Vessels that wish to use or are laid up at any of the Council piers and harbours are subject to paying dues. The Council receives most of its piers and harbours income from fees and charges from larger vessels and CalMac (CFL).
6. A schedule of rate and dues to be levied at piers, harbours and ferry slips under the Harbours Act 1964, is prepared and approved by the Council as part of the Annual Revenue Budget. Piers, harbours and ferry fees and charges are published on an annual basis on the Council's website.
7. Oban is the hub for lifeline transport connections to the islands, primarily Tiree, Coll, Kerrera, Lismore, Mull and also Colonsay, Barra and South Uist (winter). The Council has submitted an application to the Scottish Government for the extension of their Statutory Harbour Authority responsibilities to include the whole of Oban Bay. The Oban Harbour Revision Order (HRO), if successful, will increase income from Conservancy charges by a projected £250k per annum. (these are made on non-leisure craft and are to cover the costs of maintaining the port and the

duties required of the Harbour Authority (whomever that may be) in keeping the Port safe and open for business).

### Scope

8. The scope of the audit was to review charging and income arising from piers and harbour dues as outlined in the Terms of Reference agreed with the Head of Roads & Infrastructure in July 2023.

### Risks

9. The risks considered throughout the audit were:
  - Audit Risk 1: Failure to collect piers and harbour dues
  - Audit Risk 2: Failure to maximise income targets

### 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 reasonable level of assurance. This means that 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.

### Recommendations

12. We have highlighted 8 low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
  - In order to ensure consistency of practice, standardised policies and procedures should be put in place across all Council areas for the recording, collection and billing of fees and charges;
  - Calmac, the main ferry operator uses the Council's Piers and Harbours on a daily basis, with administratively intensive process in place for charging. The charging processes and procedures for CalMac ferries should be reviewed in order to streamline the process;
  - Consideration should be given to setting up SLA's or Harbour Access Agreements with the main commercial users of our piers and harbours;
  - Processes should be put in place to manage piers and harbours in the remote locations throughout the Council area, including procedures to identify the commercial leisure fleet/tour operators using the facilities to embark and disembark tourists;
  - A review of the management of the fishing fleet landing fee procedures should be undertaken with the Harbourmasters able to access information necessary to determine the correct fee to be levied. In addition, consideration should be given to obtaining confirmation of value of catch sold at market;

- Consideration should be given on how better to manage long term outstanding debt and the management of the fleet who continue to access the Council's facilities during a period of continued indebtedness;
- A review of piers and harbour dues should be undertaken as part of the budget setting process, whereby consideration should be given to identifying gaps in charges, increasing charges where appropriate and which have been benchmarked against other harbour authorities;
- Consideration should be given to publishing our fees and charges in a useable format to ensure they are readily available to the users of Council's facilities.

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

	<b>Control Objective</b>	<b>Link to Risk</b>	<b>Assessment</b>	<b>Summary Conclusion</b>
1	Policies and procedures are in place for the invoicing and collection of piers and harbour dues	Audit Risk 1	Reasonable	Whilst localised process and procedures are in place and are well understood for the collection of piers and harbour income there is no centralised comprehensive policy or procedure note that is consistently applied across the Council areas. CalMac, the main ferry operator uses the Council's Piers and Harbours on a daily basis, with administratively intensive process in place for charging. In addition there is no SLA or Harbour Access Agreements in place for the main users of the Council's facilities.
2	Robust records are maintained of all pier and harbour fees due	Audit Risk 1	Reasonable	Harbourmasters based at the Council's larger piers and harbours are able to record the use of the main facilities, however, a number of piers, slipways and harbours are in remote locations and difficult to manage in terms of use. In addition, there are no robust procedures in place to identify commercial tour vessels using our facilities potentially resulting in a loss of income for the Council. Fees and charges for the fishing fleet within the Council area are managed by the fishing fleet whereby they advise us of the value of their landings once the catch has been sold. There is no back

				up information provided to substantiate the value and it is generally paid through cash receipting or by cheque.
3	All income due to the Council in respect of piers and harbours are collected	Audit Risk 2	Reasonable	Piers and Harbours income is managed at a local level with a great deal of reliance placed on the local knowledge of the Harbour Master and staff. Debtor's accounts are raised by a members of Roads and Amenity staff who have remote access to the Sundry Debtors system. The outstanding debt owed to the Council at the end of June in respect of Piers and Harbours amounted to £143k. There are a number of long term outstanding debts and it was noted that in some instances there is continued use of our facilities by vessels who have outstanding debts dating back to 2019.
4	Procedures are in place for the consideration and setting of fees and charges	Audit Risk 2	Reasonable	Pier and harbour dues are set as part of the budget setting process. A report is prepared by the Executive Director responsible for Roads and Infrastructure Services and is presented to A&B Harbour Board. The report is then presented to the Policies & Resources Committee, with any proposed increase in the fees and charges included in the Budget Pack. The report is then presented to the full Council meeting for agreement. Pier and harbour dues are standardised charges and applicable across the Council area. Where most piers and harbours are used by ferry providers or the leisure industry, Campbeltown pier and harbour is predominantly a commercial harbour dealing with large vessels loading and unloading cargo therefore perhaps our current charging policies do not take into account the differences with other areas in Argyll. We reviewed the fees and charges agreed by the Council and compared these to fees and charges applied in other piers and harbour throughout Scotland, including Clydeport. We found that there were areas that the Council were perhaps undercharging and in others, not charging for at all in

				comparison to that of other harbour authorities.
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15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

### 3. Detailed Findings

#### Policies and procedures are in place for the invoicing and collection of piers and harbour dues

16. Whilst localised processes and procedures are in place and are well understood for the collection of piers and harbour income there is no centralised comprehensive policy or procedure note that is consistently applied across the Council areas. We were provided with written procedures which had been brought together locally by Harbour Masters for use in their own local areas.

#### Action Plan 1

17. Calmac, the main ferry operator uses the Council's Piers and Harbours on a daily basis, with administratively intensive process in place for charging. In addition to standard charges, Calmac advise, through the use of a purchase order, the numbers of passengers, cars, coaches and commercial vehicles using the ferry service. A 5% commission fee is deducted from all users, providing a net fee due. A debtor's account is then processed by Council administration staff. We were advised that discussions are ongoing to consider how processes can be streamlined for Calmac and the Council.

#### Action Plan 2

18. A number of companies, including large fish farming businesses make use of our facilities on a regular basis, however, there are no SLA's in place. We were advised that work is currently being undertaken to put Harbour Access Agreements in place.

#### Action Plan 3

#### Robust records are maintained of all pier and harbour fees due

19. Throughout Argyll there are a number of unmanned piers, harbours and slipways which are used by the commercial leisure and fishing industry to land their catch or in the case of the leisure industry, pick up and land passengers visiting Argyll's remote and uninhabited islands. Harbourmasters based at the main piers and harbours are able to record the use of the facilities where they are predominantly based, however, a number of piers, slipways and harbours are in remote locations and are difficult to manage in terms of monitoring and use. In addition, there are no robust procedures in place to identify commercial tour vessels using our facilities potentially resulting in a loss of income for the Council.

#### Action Plan 4

20. Fees and charges for the fishing fleet within the Council area are managed by the fishing fleet whereby they advise us of the value of their landings once the catch has been sold. There is no back up information provided to substantiate the value and it is generally paid through cash receipting or by cheque. In addition, there are no robust records maintained of the fishing fleet operating throughout Argyll & Bute with many of the remote unmanned piers, harbours and

slipways potentially used by the fishing fleet. Harbour Masters previously had oversight of the fishing fleet catch and were able to maintain an overview of reasonableness of information provided on the value of the catch throughout the year, highlighting any large variations.

#### **Action Plan 5**

##### **All income due to the Council in respect of piers and harbours are collected**

21. Piers and Harbours income is managed at a local level with a great deal of reliance placed on the local knowledge of the Harbour Master and staff. Staff are based at the main Piers and Harbours throughout the Council area and have good knowledge of their facilities and users.
22. Debtor's accounts are raised by a member of Roads and Amenity staff who have remote access to the Sundry Debtors system. Administration staff receive instructions from the Harbour Master with regards to fees due. Ultimate control of debtor's accounts sits with the Head of Financial Services.
23. At the start of each month a debtor report is sent (including an aged debtors list), to the Admin Officer – Roads and Infrastructure services. All outstanding debts are followed up through a standard set of debtor procedures which outline the processes to be followed for outstanding debts. The Head of Governance and Law is responsible for effectiveness of recovery following transfer of debt to Legal Services for collection and also for ensuring that legal action is carried out within agreed timescales on all cases referred by Sundry Debt Team.
24. The outstanding debt owed to the Council at the end of June in respect of Piers and Harbours amounted to £143k. There are a number of long term outstanding debts and it was noted that in some instances there is continued use of our facilities by vessel(s) who have outstanding debts dating back to 2019.

#### **Action Plan 6**

##### **Procedures are in place for the consideration and setting of fees and charges**

25. Pier and harbour dues are set as part of the budget setting process. A report is prepared by the Executive Director responsible for Roads and Infrastructure Services. For the 2023/24 fees the report prepared was presented to the special meeting of A&B Harbour Board in December 2022 whereby the Harbour Board gave consideration to the report in respect of a necessary increase in fees and charges for the financial year 2023/2024. The Harbour Board decided to recommend to the Council, when setting the fees and charges for 2023/2024 that it approves an increase to piers and harbours fees and charges of 5%, over and above an inflationary increase which would be ring fenced to develop the Council's marine infrastructure. The Council budget pack was presented to the Policy & Resource Committee in February 2023 and it was agreed to refer consideration of the Budgeting Pack 2023-24 to the Council meeting on 23 February 2023. The budget pack outlined the proposal for Harbour Fees to be increased by a total of 11%. This 11% increase is split between a 6% general inflationary increase and additional 5%. This additional increase over and above the general inflationary increase is estimated to generate additional income of £0.419m".
26. Piers and harbour dues are standardised charges applicable across the Council area. Where most piers and harbours across the Council area are used by ferry providers or the leisure industry, Campbeltown pier and harbour is predominantly a commercial harbour.



27. We reviewed the fees and charges agreed by the Council and compared these to fees and charges applied in other piers and harbour throughout Scotland, including Clydeport. It was found that there were potential gaps in terms of:

- Campbeltown is predominantly a commercial port with a large number of large commercial vessels, particularly cargo vessels, operating from the Pier. In comparison with other ports it would appear that the Council's fees and charges are lower, in particular rope handling fees. It was highlighted that if Harbourmasters were required to attend the pier out of hours to bring a vessel onto the pier, the rope handling fees, at times, did not cover the costs of the overtime for staff;
- Throughout Argyll, at times, there is a large amount of fishing gear and creels left on the piers and slipways, often in the more remote facilities which are not easily managed. It is an ongoing problem for staff clearing the areas and often the fishing gear and creels subsequently are placed back on the facilities. Other harbour authorities charge for the storage of fishing gear and creels;
- There is a growing desire for cruise ships, large and small to visit key locations throughout Argyll. Unlike other harbour authorities, there is currently no fee charged for vessels conveying their passengers ashore and tying up alongside our slipways and piers. In addition, where security is provided at the main harbours for large cruise ships conveying their passengers ashore, we do not currently charge for this service.

**Action Plan 7**

28. Harbour fees and dues are published on the Council website on an annual basis following being agreed and set at the Council's budget setting meeting, however, these are not in a format that can be easily downloaded.

**Action Plan 8**

## Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p><b>Processes and Procedures</b></p> <p>Whilst localised process and procedures are in place and are well understood for the collection of piers and harbour income dues there is no centralised comprehensive policy or procedure note that is consistently applied across the Council areas.</p>	Inconsistencies in practice across the areas within the authority's geographical boundary.	Produce a 'Policy' for inclusion in the MSMS.	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> 30 September 2024</p>
Low	2	<p><b>CalMac Charges</b></p> <p>Calmac, the main ferry operator uses the Council's Piers and Harbours on a daily basis, with administratively intensive process in place for charging.</p>	Inefficiencies in processes	Have an agreement (financial) in place by the end of the year.	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> November 2024 for approval at December Harbour Board</p>
Low	3	<p><b>SLA's</b></p> <p>A number of companies, including large fish farming businesses make use of our facilities on a regular basis, however, there are no SLA's in place. We were advised that work is currently being undertaken to put Harbour Access Agreements in place.</p>	Potential lack of understanding of services expected and provided	<p>Any agreement must be supported by both parties and Argyll &amp; Bute Council legal department. May tie in with No 2 above. Provide a report to HoS and Director with options.</p> <ol style="list-style-type: none"> <li>1. Identify potential partners</li> <li>2. Negotiation period</li> <li>3. Legal support in drafting agreement</li> </ol>	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> November 2024 for approval at December Harbour Board</p>
Low	4	<p><b>Remote Piers and Harbours</b></p> <p>Harbourmasters based at the main piers and harbours are able to record the use of the facilities where they are predominantly based, however, a number of piers, slipways and harbours are in remote locations and are difficult to manage in terms of use. In addition, there are no robust procedures in place to identify commercial tour vessels using our facilities potentially resulting in a loss of income for the Council.</p>	Potential loss of income to the Council	Actionable evidence and enforcement will continue to be an issue where there are no Argyll & Bute Council personnel on site. Investigate issues and possible solutions with Harbour Masters and provide options for consideration in report to DMT.	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> 30 September 2024</p>

No	Finding	Risk	Agreed Action	Responsibility / Due Date
5	<p><b>Fishing Fleet</b></p> <p>Fees and charges for the fishing fleet within the Council area are managed by the fishing fleet whereby they advise us of the value of their landings once the catch has been sold. There is no back up information provided to substantiate the value and it is generally paid through cash receipting or by cheque.</p>	Potential loss of income to the Council	Investigate issues and possible solutions with Harbour Masters and provide options for consideration in report to DMT.	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> 30 September 2024</p>
6	<p><b>Management of Debt</b></p> <p>The outstanding debt owed to the Council at the end of June in respect of Piers and Harbours amounted to £143k. There are a number of long term outstanding debts and it was noted that in some instances there is continued use of our facilities by vessels who have outstanding debts dating back to 2019.</p>	Loss of income to the Council	Investigate with legal department recovery or right off options. Provide a report to HoS and Director with options.	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> 30 September 2024</p>
7	<p><b>Income Gaps</b></p> <p>We reviewed the fees and charges agreed by the Council and compared these to fees and charges applied in other piers and harbour throughout Scotland, including Clydeport. It was found that there were potential gaps.</p>	Potential gaps in income streams for the Council	Complete a review of potential new charges for Harbour Board approval in Fees and charges report	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> November 2024 for approval at December Harbour Board</p>
8	<p><b>Published Pier and Harbour Dues and Fees</b></p> <p>Harbour fees and dues are published on the Council website on an annual basis following being agreed and set at the Council's budget setting meeting, however, these are not in a format that can be easily downloaded.</p>	Lack of accessibility of information	Produce a 'Schedule of Harbour Charges' for Harbour Board approval	<p><b>Officer title:</b> Marine Operations Manager</p> <p><b>Date:</b> November 2024 for approval at December Harbour Board</p>

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.