

## INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE 2025/2026

**1. EXECUTIVE SUMMARY**

- 1.1 There are three audits being reported to the Audit and Scrutiny Committee.
- 1.2 The table below 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	VFM Actions
Street Lighting – Unmetered Supply	Limited	4	1	0	0
Oban Airport - Fuel	Substantial	0	1	3	0
Capital Governance Arrangements	Reasonable	0	6	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 the detail within each individual report.

**3. DETAIL**

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

**Street Lighting – Unmetered Supply:** 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, placing system objectives at risk. Weaknesses identified require to be addressed within a reasonable timescale, with management allocating appropriate resources to the issues raised. The audit found that while contractual arrangements are in place with an accredited Meter Administrator to calculate unmetered electricity consumption, the Council does not currently maintain accurate, complete, or up-to-date inventories of unmetered street lighting assets submitted to the relevant Unmetered Supply Operators (UMSOs). Inventory records have not been routinely updated within expected industry timescales, and no formal reconciliation is undertaken between internal asset records, contractor data, statutory returns, and UMSO inventories. As a result, the accuracy and completeness of the asset base used to calculate unmetered energy consumption cannot be fully assured.

In addition, the audit identified significant weaknesses in billing assurance arrangements. Supplier invoices for unmetered electricity are approved and paid without reconciliation to Meter Administrator consumption data, validation against approved inventories, or verification of tariff structures. Management reporting and governance arrangements do not currently provide senior officers or elected members with consolidated oversight of unmetered consumption, billing accuracy, MPAN completeness, or inventory risks. These weaknesses expose the Council to an increased risk of inaccurate billing, potential over- or under-payment for energy, and reduced assurance over compliance with unmetered supply requirements. Four high-priority and one medium-priority recommendations have been made to address these issues, including re-establishing accurate inventories, implementing formal reconciliation and invoice validation processes, strengthening management reporting, and improving overall governance and oversight of unmetered electricity arrangements.

**Oban Airport - Fuel:** 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. The audit found that fuel management arrangements at Oban Airport are supported by appropriate and comprehensive documentation, including Aerodrome Manual Part 4 (AOI-13) and the Oban Airport Fueling Procedures Manual. These documents set out clear requirements for fuel storage, handling, sampling, testing, maintenance, and quality control in line with Civil Aviation Authority (CAA) expectations. Audit testing confirmed that fuel quality checks, stock reconciliation, and delivery controls are operating effectively and provide assurance over fuel safety and regulatory compliance. The audit identified a small number of minor weaknesses where aspects of governance, documentation, and oversight arrangements would benefit from further formalisation. These relate to the consistency of procedural review and approval, the maintenance of complete training and competency records, the documentation of internal inspection schedules, and the timely review of fuel-related risk assessments. While these matters do not represent a significant risk to the overall fuel management system, they constitute specific elements of residual risk that should be addressed to strengthen assurance. One medium-priority and three low-priority recommendations have been made to enhance governance arrangements and support continued compliance with regulatory and operational requirements.

**Capital Governance Arrangements:** Our overall audit opinion 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. Governance arrangements exist for allocating capital resources and for preparing Priority Investment Plans (PIPs); however, current processes show weak alignment with the Council's long-term strategic priorities, financial planning, and treasury management. Although a Capital Investment Strategy has been developed, there is limited evidence demonstrating its sustainability or effective implementation. Budget monitoring for the capital programme is undertaken by Financial Services, with quarterly reports provided to the Policy & Resources Committee in line with treasury

management reporting. PIPs are reviewed by the Capital Asset Board before inclusion in the Capital Plan, but they do not clearly link to overall Council-wide asset priorities. There is limited evidence of robust oversight or challenge in relation to planned capital works or longer-term financial planning that underpins the Capital Plan. While reports are produced at various organisational levels, there are no formal processes for escalating concerns at a strategic or Board level. The Capital Investment Board—established in 2019 to replace the Strategic Asset Management Board—has not met since April 2025. Its Terms of Reference and the wider Capital Programme Planning & Management Guide are outdated and do not reflect current practice. The Board had shifted its focus primarily to asset sustainability rather than fulfilling its broader intended governance role across the capital programme.

#### **4. CONCLUSION**

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

#### **5. IMPLICATIONS**

- 5.1 Policy – None
- 5.2 Financial – None
- 5.3 Legal – None
- 5.4 HR – None
- 5.5 Customer Service – None
- 5.6 Risk – The implementation of recommendations contained in audit reports may help mitigate the risk to the Council
- 5.7 Climate Change – None
- 5.8 Fairer Scotland Duty – None
- 5.9 Equalities - protected characteristics – None
- 5.10 Consumer Duty – None
- 5.11 Island Communities – None
- 5.12 Children’s Rights and Wellbeing – None

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#### **APPENDICES**

1. Street Lighting – Unmetered Supply
2. Oban Airport – Fuel
3. Capital Governance Arrangements