

# ARGYLL & BUTE COUNCIL

## Internal Audit Section

### INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	BUSINESS SUPPORT
AUDIT DATE	MAY 2015

2014/2015



## 1. BACKGROUND

This report has been prepared as part of the Internal Audit review of Business Support within Development and Infrastructure Services and relates to the 2014/15 Internal Audit programme.

The Economic Development and Strategic Transportation (EDST) service plan describes the service purpose as:

“To unlock the potential of Argyll and Bute’s significant sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish, UK and EU economies.”

Economic development covers areas such as Business Gateway, EU Policy and Funding, Employability Services, regeneration projects, renewables, connectivity and key sectors including tourism, food and drink and forestry.

This audit will focus on the strategic support given to the development and growth of two areas; Business Gateway and Tourism.

The EDST service plan for 2014/15 shows a service outcome relating to sustainable economic growth with a number of success measures. These include growth in the number of start of businesses and growth in the number of existing businesses supported.

Tourism activity cuts across a number of sectors and brings significant benefits to Argyll and Bute and the wider Scottish economy. In particular, tourism activity links closely with food and drink, the retail sector and recreational activities.

## **2. AUDIT SCOPE AND OBJECTIVES**

Outline scope has been agreed as a review of the strategic support to development and growth of Business and Tourism in Argyll and Bute and will include:

- Evidence of a clear vision and strategy, appropriately communicated to relevant stakeholders;
- Action plans are in place that relate to priorities and objectives outlined in strategy;
- Actions are monitored, measured and reviewed;
- Progress and performance is reported;
- Appropriate governance arrangements are in place;
- Risks have been identified and mitigated against; and
- Strategic support is not limited to Economic Development services and where appropriate links to other services and partners.

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity. Where appropriate testing will be undertaken using a modified CIPFA SBA control matrix together with relevant sampling methodology.

## **3. RISKS CONSIDERED**

Risks considered are:

- Population and Economic decline;
- Failure to have a clear vision and strategy;
- Failure to have actions which are monitored and measured;
- Failure to report progress and performance; and
- Inadequate governance arrangements.

#### 4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
<b>High</b>	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.
<b>Substantial</b>	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Limited</b>	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
<b>Very Limited</b>	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource 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:

<p><b>High</b> - 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;</p> <p><b>Medium</b> - 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;</p> <p><b>Low</b> - 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.</p>
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## 5. FINDINGS

The following findings were generated by the audit:

### Evidence of a clear vision and strategy, appropriately communicated to maximise growth

- It was evidenced that a strategy is in place in the form of an overarching Economic Development Action Plan (EDAP), 2013/18 supplemented by Area Based EDAP which will be prepared on a financial year basis up until 2017/18. Included within the overarching and area-based EDAPs is a clear vision namely “Realising our potential together, Argyll and Bute will unlock the opportunities offered by its significant, sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish and EU economies.” A review of the EDAP evidenced reference to business support, tourism and food and drink.
- It was evidenced that there is a clear emphasis on business support included in the Single Outcome agreement under Outcome 1, stating that “business and commercial opportunities are exploited in all communities across Argyll and Bute and opportunities relating to key sectors such as tourism, the digital economy, food and drink (incl. whisky) and renewables are being exploited by local businesses”.
- It was evidenced that the Service Plan for EDST includes an outcome of “Sustainable economic growth in Argyll and Bute” and it was further evidenced that success measures, target/timescales and benchmark criteria are in place.
- It was noted that a report was submitted to Council in January 2015 that outlined priorities for the period 2015/17 and it was further noted that the top priority is to “bring more jobs and more people into Argyll and Bute”.
- It was evidenced that this vision, strategy and priorities have been communicated throughout the organisation to all key stakeholders and made available on the Council’s intranet service (HUB). In respect of external stakeholders it was evidenced that consultation has also taken place.

Action plans are in place that relate to priorities and objectives outlined in overarching Economic Development Action Plan

- It was evidenced that there were specific actions targeted at achieving the vision and strategy included within the Area Based Economic Development Action Plans. Examples of actions are :
  1. Encourage business start-ups through development of small businesses.
  2. Business Gateway Advisers and other appropriate Argyll and Bute staff to continue to provide to Business Improvement Districts (BID) groups support and guidance.
  3. Develop a clear marketing proposition for Bute and Cowal for cruise ship companies, including cultural and leisure activities.
  4. Deliver a skills audit for the 4 Argyll administration areas aligned to the Highlands and Islands Skills Investment Plan. The research study is being led by the Economic Development Manager in partnership with Skills Development Scotland, Highland and Island Enterprises and Argyll College.
  
- Included in the Delivery Plans in respect of the Single Outcome Agreement a number of actions were identified which relate to priorities and objectives, these include:
  1. Support business growth through Highlands and Islands Enterprise, Scottish Enterprise and Business Gateway.
  2. Review business support mechanism in Argyll and Bute.
  3. Improve the alignment of Education and Training with business requirements and the economic opportunities within Argyll and Bute.
  4. Provide new and existing Small and Medium Enterprises with the opportunity to assess business skills workshops to help them develop.

It was evidenced that each of the actions outlined in the Delivery Plans for the Single Outcome Agreement have a responsible person, a completion date and an appropriate measurement.

- It was evidenced that within the Economic Development Service Plan, service outcomes include reference to sustainable economic growth within Argyll and Bute with a number of success measures and targets specified.
  
- A review of the Business Gateway Team plans evidenced a link between the team actions and priorities as outlined in the EDAP.

Actions are monitored, measured and reviewed

- Agreed actions are in their infancy and are being progressed by Economic Development Service and partners on an ongoing basis.
- In April 2015 Economic Development Service prepared a presentation to each of the 4 Area Committees outlining the progress against the EDAPs. These presentations included progress regarding actions and success measures, however, in respect of tourism there was no reference or update given to the agreed success measures, for example an increase of 5% in short stay visitor numbers or a 5% increase in coach tour visitor numbers. Other measures include an increase of 5% in the number of cruise ships and passengers. The Economic Development Manager has confirmed that updates were given verbally in relation to these measures and furthermore noted that indicators will be reviewed to ensure measures remain appropriate.
- It was noted that the strategic risk register included a red risk associated with population and economic decline with the joint risk owner being the Executive Director of Development and Infrastructure and Head of EDST. A number of current and planned mitigations are listed and it was evidenced that these are being actively progressed, are on track and in some instances complete e.g. establishing the Argyll and Bute Economic Forum (ABEF), holding Population Summit.

Progress and Performance is reported

- It was evidenced that Economic Development submits a quarterly performance report which focuses on progress against the targets and success measures outlined in the EDST Service Plan. The report is split between the 4 geographical areas of the Council. The performance review is by exception in regards to agreed targets and covers the following areas :
  1. Number of start-up businesses.
  2. Number of existing businesses requiring support.
  3. Turnover of start-up businesses.
  4. Business survival rates i.e. 1 year and 3 years rates.
  5. Number of full time equivalent jobs (FTEs) created within start-up businesses.
  6. The sectors where FTEs were created including tourism and food and drink.

- It was evidenced that included within Pyramid Performance Management system a range of performance measures are monitored, although not an exhaustive list these include :
  1. Number of existing businesses supported against target within each of the 4 areas within Argyll and Bute.
  2. Number of business start-ups supported by area.
  3. Growth in the number of business start-ups supported.
  4. Business % survival rates at 12 months.
  5. Business % survival rates at 36 months.
  6. Argyll and Bute Business Gateway customer satisfaction.
  
- It was evidenced that performance information is reviewed on a quarterly basis by service management and it was further evidenced that pyramid performance system accurately reflected data held.
  
- It was noted that performance scorecard information is reported to the Environment, Development and Infrastructure Committee and includes reference to both sustainable economic growth and business activity as detailed per the report submitted on 14<sup>th</sup> August 2014. It was noted, however, that scorecard information reported at Area Committee level does not include reference to business activity.
  
- It was noted that other local authorities have an overarching economic strategy document which outlines policy, strategy and local plans available on their website for public scrutiny, however, a similar document is not available within Argyll and Bute, although it is acknowledged that individual documentation is available, such as the overarching EDAP, 2013/18.

Appropriate Governance arrangements are in place

The following Governance arrangements were found to be in place:

- The area based Economic Development plans for the year are reviewed annually by the appropriate Area Committee.
  
- Progress updates are given to the 4 Area Committees by Economic Development and these are planned to be carried out annually.



- Quarterly Performance reports are forwarded for review to the Performance and Business Manager who collates a report for the Executive Director, Development and Infrastructure Services. The Executive Director then meets with all the third tier managers across Development and Infrastructure to go through the performance reporting in detail.
- Economic Development Service updates the Council's Pyramid Performance Management system on a quarterly basis with information relating to the Business development as detailed above. Pyramid information is reviewed by the Strategic Management Team and the Departmental Management Teams.
- Reporting to the Strategic Management Team is by exception.
- Reporting to the Policies and Resources committee is by exception.
- It was noted that Governance arrangements do not extend to full Council approving the EDAP. It is acknowledged, however, that the current process is that EDAPs are discussed at workshop sessions and agreed at Area Committees.

Risk have been identified and mitigated against

- It was evidenced that the Strategic risk register included a risk referring to Population and Economic decline and the need to develop strategies and action plans to address the decline in an effective manner.
- The strategic risk register has a series of mitigation factors including:
  1. Single Outcome Agreement targets population and economic recovery.
  2. Overarching Economic Development Action Plan, 2013-18.
  3. Argyll and Bute Local Development Plan implementation.
  4. Argyll and Bute Economic Forum.
- It was evidenced that operational risks have been identified in relation to sustainable economic growth within Argyll and Bute and included in operational risk register.
- It was evidenced that a paper detailing the key challenges in delivering the Single Outcome agreement and the steps necessary to address those challenges was presented to the Policy and Resources Committee on 27<sup>th</sup> November 2014.

Strategic support is not limited to Economic Development service and where appropriate links to other services and partners

- It was evidenced that the EDAPs includes an emphasis on “Partnership for Delivery” in order to achieve the vision in regard to business support and tourism including food and drink. The EDAP specifically states that “In particular, we will work closely with our private sector partners to facilitate the establishment of a new approach to business engagement and networking”. An example of this would be the Argyll and the Isles Strategic Tourism Partnership which promotes Argyll’s history, culture and landscape and also the partnership that the Council has with the Argyll and Isles Tourism Cooperative Ltd.
- It was evidenced that both the Single Outcome Agreement and the EDAPs include reference to partner organisations and in some cases are identified as the lead partner. These include
  - a. Highlands and Islands Enterprise.
  - b. Jobs and Business Glasgow.
  - c. Other Local Authorities across the Highlands and Islands, Argyll and the Islands Strategic Tourism Partnership.
  - d. Food from Argyll.
  - e. Argyll and the Isles Agricultural Forum.
- It was noted from the Leader’s report to the Council dated November 2014 that he attended the Economic Summit at the Queens Hall in Dunoon and that “key players from Argyll and Bute’s business community attended”. The Leader’s report emphasised the various partnerships that were in operation to promote Argyll and Bute’s business, tourism and drinks industry. Particular emphasis in the report was given to ABEF a “public/private partnership which will drive forward economic change in Argyll and Bute, ABEF will shape that strategic vision for the future and will, crucially, be business led”.

## **6. CONCLUSION**

This audit has provided a substantial level of assurance. There are 2 medium recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Economic Development 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**

<b>Findings</b>	<b>Risk Impact</b>	<b>Rating</b>	<b>Agreed Action</b>	<b>Responsible person agreed implementation date</b>
<b>1. Performance reporting</b>		<b>High/ Medium or Low</b>		
Performance measures in some instances require to be reviewed.	Inappropriate performance recording.	Medium	<b>Economic Development Manager is currently revising the area-based EDAPs for 2015/16 with regard to SMART in-year actions and success measures. The area-based EDAPs are to be endorsed by the Area Committees in August 2015.</b>	<b>Economic Development Manager 31 August 2015.</b>
<b>2. Scorecards</b>				<b>High/ Medium or Low</b>
Scorecard data info to Area Committees does not include any reference to business activity.	All appropriate information is not cascaded leading to ineffective decision making.	Medium	<b>Economic Development Manager to liaise with Programme Manager (Pyramid) to assess how the Area Committee scorecards were developed and how business activity could be aligned to that presented in the Economic Development scorecard.</b>	<b>Economic Development Manager 31 August 2015.</b>

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