

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Townscape Heritage Initiative
AUDIT DATE	February 2016

2015/2016



1. BACKGROUND

This report has been prepared as a result of an Internal Audit review of Townscape Heritage Initiative within Economic Development & Strategic Transportation as part of the 2015/2016 Internal Audit programme.

There are multiple heritage led regeneration projects which have taken place or are currently being carried out in Argyll and Bute. These schemes improve the built and visual qualities of an area which in turn help improve social and economic prospects. Works undertaken as part of these schemes involve the use and promotion of heritage skills. The use of traditional skills helps to ensure that repairs are long lasting, that local skills are developed and that the quality of place is maintained and improved.

A Townscape Heritage Initiative is funded by the Heritage Lottery Fund and runs for a specific period of time (usually about 5 years). The initial Heritage Lottery Funding is often then added to by other bodies such as the Local Authority for the area and Historic Scotland. The funds can be applied for by owners of properties within the designated area and these grants will be allocated. Two schemes were reviewed, Rothesay and Campbeltown.

Rothesay

The Rothesay Townscape Heritage Initiative is a 5-year project which seeks to revitalise a defined core area within Rothesay's historic town centre. Grants have been offered to property owners to assist with structural and external repairs to bring their properties back to a good state of repair.

The project is funded by the Heritage Lottery Fund (£1.5m), Historic Scotland (£0.5m), Argyll & Bute Council (£0.54m) and LEADER (£108k). In addition to this £2.6m of public funding, private investment amounts to £1.38m, meaning a total investment in the island's gateway of approximately £4m over a five year period. All grants have been allocated and the project will draw to a close on 31st March 2016.

Campbeltown

Campbeltown THI is a heritage led regeneration project with an initial budget of £1.6M funded by Heritage Lottery Fund (£0.7m), Historic Scotland (£0.22m), Argyll & Bute Council (£0.50m), HIE (£77k) and LEADER (£115k) . Total grants awarded of £1.4m have

helped secure an additional £5.5m from other funders and owners contributions, resulting in an overall spend of £6.9m in Campbeltown town centre.

The THI also incorporated the Round 1 Campbeltown Conservation Area Regeneration Scheme (CARS) that ended on the 31 March 2012. The main aim is to provide a sustainable economic future for Campbeltown's historic town centre that recognises the value of its built heritage whilst making it a better place to live, work and visit. Funding has been secured for a Round 6 CARS with effect from April 2015. In March 2015 Historic Scotland awarded the council almost £1m to repair key buildings within the town's conservation area which, in addition to funding from the council's regeneration and housing repair budgets as well as private contributions, will see at least £2.2m being spent on buildings in Campbeltown's historic town centre over the next five years.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review project compliance, delivery of outcome, including controls in place to monitor progress, monitor compliance and the governance arrangements in place including financial controls.

Control objectives included:

Authority:	policies and procedures have been established;
Occurrence:	policies, procedures and processes are documented and are readily available;
Completeness:	authorities, roles and responsibilities have been identified, allocated, and communicated to the relevant persons and appropriate training provided;
Measurement:	procedures ensure information is regularly reviewed and updated;
Timeliness:	records are updated regularly;
Regularity:	policies and procedures have been established to protect assets from unauthorised access.

3. RISKS CONSIDERED

- Failure to comply with Grant conditions;
- Failure to adhere to policies and procedures;
- Failure to achieve project outcomes.

4. AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
High	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.
Substantial	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.
Limited	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.
Very Limited	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>High - 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>Medium - 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>Low - 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>

5. FINDINGS

The following findings were generated by the audit:

Project Compliance

- 5.1 Argyll & Bute Council identifies conservation areas by completing Conservation Area Appraisals, including developing a Management Plan identifying areas for improvement. On successful completion of the Heritage Lottery Fund (HLF) grant application process for Townscape Heritage Initiative (THI), funds are awarded for specific projects identified within the application form. The Councils' role is to disperse THI funds via a grant application process. It was evidenced that grant application processes are in place and, as required, applicants complete the standard application form and provide relevant information which is requested on a checklist. It was evidenced that a scoring system is in place for the allocation of funding to ensure that the aims and objectives of the THI are met.
- 5.2 Argyll & Bute Council act as administrators for the projects. Money is drawn down by the Council retrospectively from HLF on a quarterly basis as required by HLF procedures. Grant payment and progress reports are completed; these provide details of agreed completion dates, actual completion date, explanations for variances to completion dates, project finance to date, identified risks and any steps to mitigate identified risks. To date there have been 44 grant payment and progress reports submitted to HLF. All applications for the release of funding have been approved by HLF with no issues identified.
- 5.3 Adequate accounting procedures and records are in place in respect of the HLF grant claims and progress report submissions. This includes supporting evidence in terms of invoices for eligible spend.
- 5.4 It was evidenced that Campbeltown Conservation Area Appraisal and Management Plan was undertaken by an independent company and is available on the Council's website. Rothesay Conservation Area Appraisal and Management Plan is also available on the Council's website.
- 5.5 Claims procedures are documented and are readily available. Grant application checklists have been established. Eligibility flowchart processes have been established. As required by HLF standard grant application forms are in place, including standard grant contract forms. It was evidenced that these are being used as part of the grant process. This includes details of procedures for release of grant, inspection, timescale for works and detailed cost information.

- 5.6 It was evidenced that specifications and outline costs are prepared by an independent company. Independent valuations are undertaken, this informs the conservation calculations for priority projects which the grant percentage is based on. THI grant reports and recommendations to support funding for projects are presented at Area Committees for approval.
- 5.7 Area Committees are required to agree specific project funding distribution. It was evidenced that specific individual project details are provided to Committee for approval, this includes financial details for the project. It was noted that the reports provided to the Area Committee did not include details of the overall budget for THI.
- 5.8 It was evidenced that condition surveys are undertaken of properties eligible to apply for grant funding. Each property is subject to a thorough survey process to inform a schedule of works which has been competitively tendered in each case. The scope of works for each building seeks to bring the property back into a good state of repair whilst significantly improving the streetscape and works are developed in consultation with Argyll & Bute conservation officer. An overview of the scope of works relative to each property is outlined to the Area Committee.
- 5.9 Site visits are undertaken by agents appointed by owners, contractors and THI staff. Standard site visit report sheets are completed by the Agent detailing any observations, actions to be undertaken (including identifying responsible person) and highlighting any delays to project. Site visit reports sheets were available for review.
- 5.10 It was evidenced that the Agent provides interim certificates to the Council for progress payments to be drawn down. The Agent acting on behalf of the owner agrees with the Contractor the value of the work that has been undertaken; this includes the value of the labour and materials. It was evidenced that supporting invoices are available from the Contractor for the value of the work undertaken.

Monitoring of Progress

- 5.11 Five year action plans are drawn up identifying timelines for each project, it was evidenced that these are updated on a regular basis. Action plans are submitted on an annual basis to the Heritage Lottery Fund where they are reviewed by the Heritage Lottery monitor and, if satisfactory, are signed on behalf of the Trustees of the National Heritage Memorial Fund. The submission includes information relating to the list of eligible target properties, performance indicators, proof of partnership funding, a timetable/programme, a cost breakdown (including cash flow), details of the project management structure and

method of choosing consultants, contractors and suppliers. All of the action plans have been approved and agreed each year by the HLF Monitor.

- 5.12 Highlight Reports are completed and submitted to the Development & Infrastructure Departmental Management Team Strategic Board. Additionally, Reports are sent to the Project Manager (CHORD) for inclusion in CHORD reports that are submitted to the Policy & Resources Committee on a quarterly basis. In Campbeltown the CHORD Boards were abolished in 2013/14 and the project is now governed by the MAKI Area Committee. Regular reports were submitted to obtain approval for grants and to provide project updates. A final report will be submitted to MAKI Area Committee after the completion of the THI. Rothesay THI was initially set up to report to a Project Board, but these were superseded by the Area Committees with Highlight reports to Strategic Management Team (SMT).
- 5.13 Detailed timeframe charts were available and progresses to date photographs are available for projects, this includes 'before' and 'after' photographs.

Governance and Reporting

- 5.14 Project team roles and responsibilities for developing and delivering the scheme, including reporting structures are identified as part of the HLF application.
- 5.15 Area committees assume the role of project boards and designated project officers are in place.
- 5.16 Monthly meetings are held between the Projects and Renewables Manager and the Policy Lead for Sustainable Economic Growth (Economic Development, European Affairs, Renewables and Strategic Tourism). Project progress is discussed in detail at this meeting.
- 5.17 Highlight reports are prepared and are available internally. Reports are also taken to area committee on an adhoc basis when funding requires to be approved. However it was noted that reporting at Council level was limited.
- 5.18 There are no specific measures for THI within Pyramid, however, within the CHORD programme scorecards reference is made to THI initiatives within the commentary section.

- 5.19 It was evidenced that comprehensive reporting is in place in respect of returns to HLF.
- 5.20 Budgets are monitored by THI staff for each individual project, including the monitoring of the overall budget awarded for THI. A member of staff was appointed with the specific role of finance. However, it was noted that there is no interface with the Council's formal budget monitoring processes.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There were 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are no low recommendations. Appendix 1 set 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 Development & Infrastructure 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

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Project Approval		High/ Medium or Low		
It was noted that the reports provided to the Area Committee detailed the finance required for individual projects but did not include details of the overall budget for THI.	Failure to provide key performance information may lead to ineffective decision making.	Medium	Agreed to include the overall budget totals in future reports from April 2016	Projects and Renewables Manager 30 April 2016
2. Budget Monitoring				High/ Medium or Low
There is no interface with Strategic Finance staff in terms of the budget monitoring procedures.	Failure to ensure appropriate budget monitoring procedures are in place leads to ineffective decision making and/or reputational damage.	Medium	Agreed to meet Strategic Finance quarterly on budget monitoring with regard to THI funding from April 2016	Projects and Renewables Manager 30 June 2016



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