

# ARGYLL & BUTE COUNCIL

## Internal Audit Section

### INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
DESCRIPTION	SPECIAL INVESTIGATION
TITLE	ALL-WEATHER PITCH FACILITIES
DATE	OCTOBER 2016

2016/2017



## 1. EXECUTIVE SUMMARY

At its meeting of June 7th, the Bute and Cowal Area Committee requested an Internal Audit review of management arrangements in respect of Dunoon 5 Aside Cages. Matters of a similar nature were also raised at the Helensburgh and Lomond area committee. At its meeting of 30th June 2016 the Council noted that the Chief Executive had referred the issue of the management of the cages to Internal Audit as part of their investigation into the management of all these facilities in Argyll and Bute.

This review covers the period from 2000 to 2016 therefore some of the matters identified are historic in nature. Our approach included discussions and interviews with officers and stakeholders together with a detailed file review of available documentation and records. Unfortunately due to the length of the period covered and staff turnover during the period it was not possible to interview all relevant officers.

Sixteen all-weather facilities have been identified as being in place throughout the Council area and these are subject to a range of operating, management and maintenance arrangements.

The report identifies a number of weaknesses in respect of the overall management of a number of these facilities. The weaknesses have been categorised into; Lease Management, Financial Management, Maintenance Arrangements, Facility Management, Communication, Engagement and Operating Models. Appendix A provides a summary of these issues together with the potential risk impact and agreed management action / commentary.

Assurance levels vary from High in relation to the NPDO schools, to limited for the non NPDO school related pitches to no assurance for the 4 stand-alone sites. However an overall “No assurance” opinion is being provided, internal control and management of risk is poor with significant residual risk and /or significant non-compliance with basic controls. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

## 2. SCOPE

**The scope of the investigation will be limited to the undernoted activity;**

- Identification of sports facilities owned, operated or leased by the Council
- Review of operating arrangements including lease / asset transfer to Community Groups or organisations
- Review of funding mechanisms including arrangements for compliance with any grant award criteria
- Review of financial management arrangements including operating income & expenditure and any residual balances

- Review of condition survey status
- Review of repair, refurbishment and / or replacement programme

### 3. CONTROL OBJECTIVES

Controls reviewed included:

- Authority – Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
- Occurrence – Sufficient documentation exists to evidence compliance with policies, procedures and relevant legislation
- Completeness – Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained
- Measurement – Policies and procedures are in line with requirements of relevant legislation
- Timeliness – Policies and procedures are regularly reviewed and updated as necessary
- Regularity – Documentation is complete, accurate, and not excessive and is compliant with the document retention policy. It is stored securely and made available only to appropriate members of staff.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial</b>	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where 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 management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls 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 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 management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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>

#### 4. FINDINGS

The following findings were generated by the audit:

##### **Identification of sports facilities owned, operated or leased by the Council**

There are a number of non-grass facilities throughout the Council area. These are shown in the list below. They are recorded on the Council's asset register either as an individual entry or as part of the wider School Land/Building entry.

- Dunoon Grammar School
- Rothesay Joint Campus
- Hermitage Academy
- Lochgilphead Joint Campus
- Oban High School
- Aqualibrium Campbeltown
  
- Tobermory Kenny Macintyre Memorial Pitch
- Lochnell School Pitch
- Park Primary School Pitch
- Innellan School Pitch
- Parklands School Pitch
- Tiree High School Pitch
  
- The Dunoon Cages, Black Park
- Bendarroch
- Kirkmichael
- Tarbert Community Project

### **Operating, Management and Maintenance Arrangements**

Various operating, management and maintenance arrangements are in place in respect of these facilities and for the purpose of this review they have been grouped into categories;

- NDPO: Facilities available at our schools which were built under the NPDO initiative.
- Community Services/Schools: Facilities available at school locations and where applicable bookings managed via the Community lets process.
- Other: Individual arrangements.

**NPDO:** Facilities are used by Schools when the school is in session. Out-with School use, facilities are available for booking via Community and Culture service. At its meeting of 5 February 2015 the Policy and Resources committee considered and agreed a charging policy in respect of these 4 pitches plus the facilities at Campbeltown (Aqualibrium) and Oban High School.

Maintenance arrangements fall under the NPDO contract whereby facilities must be available for use throughout the term of the contract with the exception of programmed maintenance. Where facilities are not available contractual penalties are applied. In respect of the Aqualibrium and Oban High School facilities, maintenance arrangements are in place with Amenity services. In summary adequate control arrangements are in place in respect of these facilities.

**Community Services /Schools:** There a number of pitches that are known as School pitches. These are Innellan, Tobermory, Tiree, Park Primary, Lochnell and Parklands. These are primarily used by the host School and are not formally available for Community let with exception of Tiree. The construction of Lochnell pitch was part funded via a sport Scotland award (£33k) and Tobermory was part funded by New Opportunities monies (£69k). In respect of all of these pitches, there is no formal repair and maintenance programme in place and during the audit it was evidenced that clarification is required as to who is responsible for the maintenance, inspection and overall management of these facilities. Where maintenance has been undertaken this has been on an ad-hoc reactive request basis.

**Others:** These are stand-alone facilities and not directly linked to a school and which have individual operating /maintenance arrangements. These are: Tarbert Community Sports Project, Dunoon Cages, Bendarroch and Kirkmichael. Detail is shown below for each for these facilities.

Tarbert Community Sports Project:

The pitch was funded primarily from monies from the Big Lottery fund with £124k awarded in 2006. There are currently no charging, management or formal maintenance arrangements in place. The facility is used regularly by the local School and a number of local groups and individuals however it is operated on a first come first serve basis or on known local user time. Representatives from the local football club and other user clubs have on occasion undertaken basic maintenance and cleansing activity. The Council are currently undertaking a £88k programme of remedial and refurbishment work which commenced 12 September 2016.

Dunoon Cages, Black Park:

The project for a new all-weather pitch for Dunoon, in its present form, was conceived around 1999 by a small group of individuals in Dunoon who sought to provide a high quality all-weather facility in the area. The selected site was at Ash Park Dunoon. The original initiative was led by the Dunoon Youth Football League. However, it was ultimately taken forward via an independent community group. As a result Cowal Community Sport Project (CCSP) was formed to set up and operate as a community business and manage the facility.

The Council submitted an application to Sportscotland in the early part of 2000 on the basis that the new facility would be leased to the community business (CCSP). At that time the concept was that CCSP would pay a nominal rent and that CCSP would operate as a non-profit making community business.

The original estimated cost for the project was £132k and the application for support from Sportscotland was based on this estimate. However, when tenders were subsequently opened the lowest tender was some £30k higher than the original estimate. The application to Sportscotland was successful and a grant of £99k was awarded August 2000.

In addition to the grant application to Sportscotland, funding was allocated from the Council's Repairs and Renewals fund (Spend to Save). This is a self-financing fund where funds awarded to qualifying organisations are repaid over an agreed period. The aim was to provide short term finance to enable new projects to commence, with the repaid funds providing the opportunity for other organisations to benefit in a similar way. An award of £25k was allocated to CCSP which was to be repaid

initially over a period of 4 years. This was later extended to a 7 year repayment period by the Strategic Policy Committee of Argyll & Bute Council on 18th October 2001. Internal Audit have confirmed that no payments for this or any similar amount were made directly to the group, instead it was taken as a contribution on behalf of CCSP towards the funding of the project. Although the necessary internal transactional entries were processed in respect of allocating the monies to the project budget Internal Audit have been unable to evidence that any agreements were drawn up and signed which detailed liability and repayment schedule although it is accepted by both CCSP and the Council that this was the intention.

As part of the project process a business plan was prepared which, amongst other things, included repaying the Spend to Save award. The Council failed to put any arrangements in place for the collection of these repayments and neither did the group offer. There is no evidence of any correspondence discussing the repayment of outstanding monies in respect of the loan repayments. Internal Audit have confirmed with Strategic Finance that there is no outstanding debtor on its books in respect of the Spend to Save award and clearing entries were made in the interim period. The detail of these transactions is not readily available.

A lease agreement was drawn up but was not formally signed until August 2004, some 3 years into the operation of the project, at which time the Council entered into a 25 year lease agreement for the period July 2001 through to 2026.

The lease included details of the annual rental payment (£860) due to be paid however, again, there was an internal failure to put arrangements in place to collect these monies and neither did the group offer payment.

The lease also states “the tenants accepts the premise as being in good and tenantable condition” and “at all times during the currency of the lease will and to the reasonable satisfaction of the landlords repair and maintain (and if necessary to reinstate and renew) the Premises and every part thereof and all additions thereto and the fixtures and fittings”.

This lease agreement was also submitted to Sportscotland and accepted in respect of clause 18 of their standard terms and conditions which states “You (the awardee) will be responsible for the repair, maintenance and eventual replacement or renewal of the facilities provided with the help of the award. Before the project commences you must provide us with written confirmation that you will undertake a programme of maintenance and repair to safeguard the asset.”

This responsibility for maintenance, repair and eventual replacement was known to the group who, in their business plan, provided for a £10k per annum contribution to a sinking fund. The Council did retain a landlord responsibility for inspection of



the facilities to ensure the asset was being maintained appropriately however there is no evidence of any inspection activity or reporting of such haven taken place.

The Council and the CCSP complied with Sportscotland’s post completion monitoring activity with all appropriate returns being completed and submitted. Sportscotland have advised that their general terms and conditions for awards less than 100k are applicable for a period of 10 years post completion.

A summary of the project costs and funding is shown below. The total approximate cost of the project was in the region of £155k.

<b>Costs (£)</b>		<b>Funding (£)</b>	
Base Works	28,000	Sportscotland	99,000
Fencing	38,000	A&BC – Spend to Save	25,000
Synthetic Surfacing	52,000	A&BC – Capital Funding	11,000
Floodlighting	12,000	CCSP Contribution	10,000
General Items	25,000	AIE Match Funding	10,000
<b>Total Project Cost</b>	<b>155,000</b>	<b>Total Funding</b>	<b>155,000</b>

The Council agreed to a business development grant of £5k as a contribution towards start-up costs. These monies were paid to the group and credited to their bank account. The monies were to be repaid if the group was successful in attracting additional external funding however as no formal application was made for additional external funding, repayment was not required.

As this facility was leased to CCSP, income collection was the direct responsibility of the group. The original business plan provided for approximately £30k income per annum. This target was never achieved with highest income recovery of £20k

achieved in 2007. A high level review of annual income levels against business plan forecasts demonstrate the forecasts were ambitious and that annual income over the period was approximately 35% of original target. CCSP have intimated that the creation of additional synthetic facilities at the then new Dunoon Grammar School impacted on user numbers and therefore income levels. A review of CCSP annual accounts show that the organisation ran at a deficit for 7 out of the 11 years between 2004 and 2015.

Internal Audit are aware that CCSP's day to day finance operations, for a short period, included the practice of offsetting whereby expenditure was directly deducted from income and the net balance recorded in bank accounts. Whilst this is not good accounting practice the amounts involved are thought to be immaterial. Internal Audit have evaluated the potential risk of fraud or misappropriation and based on information available conclude this to be very low risk with no evidence of any act of criminality.

Audited Financial Statements have been prepared and submitted to Companies house for each and every year since the incorporation of the CCSP group. CCSP are currently making arrangement to wind down the Community Business. As at March 2015 CCSP had net assets of £144. (One hundred and forty-four pounds).

Dunoon Cages - Dunoon 5's:

CCSP intimated their intention to withdraw from the lease agreement late 2013 and subsequently the Council approached Dunoon 5's to see if any there was any interest in operating the facility. As a result of these discussions the Council entered a minute of agreement with Dunoon 5's to take over the operation of the Dunoon Cages in 2014. This agreement covered the period 1<sup>st</sup> September 2014 to 31<sup>st</sup> August 2015.

A sum of £7,500 was paid to Dunoon 5's to fulfil their obligations under the agreement which amongst other things, included the responsibility to "*maintain the cages to the satisfaction of the Council*". The agreement also states "*the Council shall carry out monthly health and safety inspections of the Cages and shall advise Dunoon 5's in writing, within 5 working days of the inspection, or any works that they consider are necessary to bring the condition of the cages up to an acceptable standard for use by the general public*".

There is no evidence of any monthly health and safety and/or maintenance inspection activity having taking place. Neither has the Council written to the group requesting any remedial repairs. Quarterly meetings have taken place between the appointed representative from Dunoon 5's and the Council and a number of issues have been discussed, primarily lighting issues. To date, there has been limited progress in addressing these issues.

In respect of the responsibility to maintain the cages, Dunoon 5's understood this to be basic care and maintenance activity. Out-with the life condition of the surface, there are currently issues with lighting whereby 10 out of 16 lights are inoperative impacting on the availability of pitches and which have been reported to the Council. It is not clear from the wording in the minute of agreement where this responsibility for repair lies and a lack of clarity exists in respect of obligations of Dunoon 5's and the Council. Dunoon 5's are currently operating the facility on a month to month basis on the same terms and understanding as the now expired minute of agreement.

#### Bendarroch Park: Garelochhead

Funding (£125k) was awarded in January 2004 from the Big Lottery Fund under its New Opportunities Fund. Monies were used to construct a floodlit, synthetic grass multi-use games area at Bendarroch Park, Garelochhead. The aim of the project was to allow approximately 1,000 people from local schools and the communities of Garelochhead, Cove, Rosneath, Rhu and West Helensburgh to participate in a range of activities such as football, hockey, netball and volleyball. In addition to lottery funding, funding (£23k) was also received from SportsScotland in respect of changing facilities at same location.

At the outset of the project it was proposed that management of the facility would be undertaken by a Local Community Group with assistance from the Council. A steering group was formed with representatives from the Council, Garelochhead Community Council, Garelochhead residents association and other community groups to oversee the project during its design and construction phase. On completion it was planned that a properly constituted management board would supervise and run the facility however it would appear that this planned arrangement did not come to fruition. There is no documentary evidence, e.g. signed lease or minute of agreement, to suggest that any formal arrangement was put in place post construction.

Current arrangements in place are such that local schools can use the facility during school hours without charge. There is also an arrangement in place whereby "local time" slots, generally between 5pm and 6pm are available, again these are without charge. All other available slots are chargeable and can be booked through Council contact centre. An arrangement is in place whereby a Local Community Group, Centre 81, undertakes key holder responsibility. There is no formal maintenance or cleansing arrangements in place although the Council did commission remedial works in respect of damage as a result of vandalism during 2012/13. Any income received from bookings is coded to a council cost centre. Surplus balances at the year-end are transferred into an earmarked reserve. Total recorded income for the period 2005 to March 2016 is approximately £8,000 with annual income levels ranging from £2,600 in 2005/06 to £43 in 2015/16. A review of year entries shows that where annual income levels are particularly low these amounts have not been transferred to the earmarked reserve due to materiality concept being applied. The current balance in the earmarked reserve is £4,257.

Kirkmichael:

This facility was developed by the Council and is included on the Council's asset register. Upon completion of the development a management arrangement was put in place between the Kirkmichael Sport and Recreation Association (KRSA) and the Council which was aimed at ensuring that all management, maintenance and replacement responsibility would lie with KRSA. This was in the form of a 30 year lease. Unfortunately the organisation ceased to exist a number of years ago thus by default responsibility for the facility fell back to the Council. Currently there are no management, maintenance and operating arrangements in place. There is no record of any income or booking arrangements being in place since the KRSA ceased to exist. This project was primarily funded from Council resources.

**Compliance with Grant Award Criteria:**

With regards to projects where external funding was levered, the Council has satisfied the awarding body terms and conditions during the application process and providing appropriate evidence where required. The Council have also satisfied any post completion evaluation protocols. However, in respect of Sportscotland criteria, it could be reasonably argued that there are weaknesses in respect of the Council's adherence to their clause which states there should be a "programme of maintenance and repair in order to safeguard the asset".

Sportscotland standard terms and conditions are applicable for 10 years post project completion.

**Condition Survey / Repair replacement programme:**

Various maintenance and repair arrangements are in place in respect of the Council's all-weather pitches.

NPDO pitches form part of the overall facilities management contract and are subject to routine repair and maintenance. At the end of the contract, it is expected that these will be handed over to the Council with an agreed useful life.

With the exception of Tarbert Community Project, which is currently subject to repair and refurbishment activity, there are no routine repair or replacement programmes in place for the remaining facilities. However condition surveys have recently taken place for a number of these facilities and management are sighted on repair and improvement requirements across a number of facilities. The

Council has earmarked a sum of monies for potential refurbishment and replacement where necessary. Papers have been recently taken to Council outlining options for progressing with a refurbishment programme.

### **Operating Models:**

Operating models for all-weather facilities vary across the Council's geographical areas. There is a need to ensure that existing facilities are used efficiently and effectively. Consideration should be given to future delivery model(s) giving cognisance to viability and sustainability of current facilities together with an assessment of the social impact and contribution to outcomes. Any delivery model should be built on identified need and /or existing available capacity in locality. Options for operating models should also make clear any associated risks and liability commitment both current and future.

To summarise, appraisal criteria should, as a minimum, include reference or make clear arrangements in respect of:

- Sustainability
- Risk – options should seek to reduce or minimise risk to the Council
- Lifecycle maintenance and refurbishment programme
- Usage agreement, charging and booking model
- Management model or delivery vehicle, e.g. In-house, 3rd Sector, Arm's Length Organisation

## **5. CONCLUSION**

The review has identified a number of weaknesses which require remedial management action. In respect of the NPDO category of pitches management of risk is of high assurance with sound control arrangements in place. However in respect of the remainder of the facilities internal control, governance and management of risk is, in some instances poor with significant residual risks and / or non-compliance with basic controls leaving the Council and / or system exposed to error, loss or abuse. Where facilities have been subject of a grant award / application the Council has satisfied application criteria and post evaluation monitoring requirements. An

action plan has been prepared which outlines the weaknesses identified and potential risk implications. The actions plan also includes management response / agreed actions.

**APPENDIX 1 ACTION PLAN**

<b>Findings</b>	<b>Risk Impact</b>	<b>Rating (High/Medium or Low)</b>	<b>Agreed Action</b>	<b>Responsible person agreed implementation date</b>
<b>1. Operating Model</b>				
Consideration should be given to future delivery model(s).	Failure to assess and agree appropriate delivery models adversely impacts on initiative success and value for money.	High	<b>A formal options appraisal is carried out with regard to the operational and management model for each site severally and together. The appraisal should have regard to the list of principles identified in the Internal Audit report and be reported for decision to the EDI Committee.</b>	<b>Head of Roads and Amenity Services. 30 April 2017</b>
<b>2. Lease Management</b>				
The Council did not actively manage Lease/ Minute of agreements in respect of stipulated terms and conditions.	Failure to adequately manage lease agreements result in potential loss and reputational damage	High	<b>Subject to the outcome of the options appraisal above, as required site leases be prepared and management agreements for each site be established</b>	<b>Operations Manager Roads and Amenity. 30 April 2017, following formal options appraisal.</b>

			<p><b>setting out the roles and responsibilities of each party.</b></p> <p><b>As required arrangements for an annual review of the agreements and accounts be agreed.</b></p>	
<b>3. Financial Management</b>				
<p>Arrangements were not put in place to recover monies due to the Council, namely rental income and Spend to Save repayments.</p>	<p>Failure to collect income due results in financial loss and impacts on organisations ability to deliver services.</p>	High	<p><b>Subject to the outcome of the options appraisal and lease/ management agreements, the annual review of the agreements will include confirmation of receipt of all due payments from 3<sup>rd</sup> parties</b></p>	<p><b>Operations Manager Roads and Amenity.</b></p> <p><b>30 April 2017, following formal options appraisal.</b></p>
<p>There was no evidence of a formal agreement being in place in respect of Spend to Save loan</p>	<p>Failure to issue Loan agreement papers may lead to dispute re liability resulting in non-payment of monies due.</p>	High	<p><b>Ensure all future loans that are formally approved by council /committee are included within the terms of any lease/</b></p>	<p><b>Head of Strategic Finance.</b></p> <p><b>31 December 2016</b></p>



			management agreement and where appropriate relevant documentation is prepared.	
There is an inconsistent approach to the application of Hire charges.	Failure to ensure equitable charges and access for all customers leads to inequality and reputational damage.	High	Subject to the outcome of the options appraisal above, any lease/ management agreement must clearly specify consistent terms for when charging applies (n.b. actual charges may vary dependent on the decisions of the managing organisation).	Operations Manager Roads and Amenity.  30 April 2017, following formal options appraisal.
<b>4. Maintenance Arrangements</b>				
For non-NPDO facilities maintenance arrangements are not clearly defined and there is no evidence of an agreed programme being in place.	Failure to adequately maintain facilities may lead to disrepair resulting in increased liability risk / cost.	High	Development of a clear, costed maintenance regime for each site.  Agreement on the costs of maintenance	Operations Manager Roads and Amenity.  30 April 2017

			to be incorporated in the financial section of the management agreement for each site.	
<b>5. Facility Management</b>				
There is a fragmented approach in respect of overall management of all-weather facilities.	Failure to have a defined management plan leads to inconsistency adversely impacting service delivery resulting in reputational damage.	High	Following agreement on the appropriate lease/ management option for each site, the approach should be included within an overarching pitch strategy for the area.	Head of Communities and Culture.  31 December 2017
<b>6. Communication</b>				
There are weaknesses in internal communication which is exacerbated by a lack of clearly defined roles and responsibilities.	Failure to clearly define roles and responsibilities may lead to ineffective performance resulting in non-compliance with legal / and or service requirements and standards.	High	Subject to the outcome of the options appraisal above, the lease/ management agreements should include a section which clearly defines roles and responsibilities	Operations Manager Roads and Amenity.  30 April 2017, following formal options appraisal.

<b>7. Engagement</b>				
Engagement with key stakeholders post construction phase is deemed poor.	Failure to engage with stakeholders adversely impacts success of project or initiative.	High	<b>Subject to delivery model, any lease / service level agreement will define contact and engagement protocols which will be monitored and reported on accordingly</b>	<b>Operations Manager Roads and Amenity.</b>  <b>April 2017, following formal options appraisal.</b>



## Contact Details

Name Kevin Anderson

Address Whitegates, Lochgilphead, Argyll, PA31 8RT

Telephone 01369 708505

Email kevin.anderson@argyll-bute.gov.uk

[www.argyll-bute.gov.uk](http://www.argyll-bute.gov.uk)

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