



Internal Audit Report

Development and Infrastructure Services

Review of Argyll Air Services

May 2011

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	1
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	2
7	Audit Opinion	3
8	Acknowledgements	4
Appendix 1	Detailed Findings	5
Appendix 2	Action Plan	9

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Argyll Air Services, within Development and Infrastructure Services, Roads and Amenity Services as part of the 2010/11 Internal Audit programme.

The previous review by Internal Audit of Argyll Air Services was reported in August 2008 in a review of Tendering Procedures and the findings of this report were also incorporated into a wider scoped report by Grant Thornton the Council's external auditors. One of the main recommendations of the external audit report, issued in 2009, was that a Business Plan for Argyll Air Services should be prepared.

A business plan was still not in place when the Public Service Obligation (PSO) contractor went into liquidation. The service was then operated (in a temporary arrangement) by Hebridean Air Services until a new tender process could be instigated. Neither of the tenders received as a result of that process were acceptable and were rejected. Hebridean Air Services continued to provide a temporary service until a revised tender process could be put in place.

The Executive Director of Development and Infrastructure Services instigated a process of review, consultation, and investigation to identify the optimum solution for the Council in terms of a cost related service provision.

2 AUDIT SCOPE AND OBJECTIVES

The broad objective of this review was to ensure that the process operated was appropriate; provided performance measures and was evidence based. The scope of the audit involved;

- Reviewing available historical data;
- Reviewing airport licence and Rescue and Fire Fighting Services (RFFS) requirements;
- Matching resultant costs to licence and RFFS requirements;
- Reviewing tender proposals and sourcing strategy; and
- Ensuring risks to Service were identified and mitigated.

3 RISK ASSESSMENT

The future of Argyll Air Services has been considered as a Council project and the attendant risks were assessed and a process of mitigation/elimination adopted. Among the risks to the project are:

- PSO service bids too high rendering a loss of service detrimental to the socio economic development of the Area
- Civil Aviation Authority does not approve the remission to a Code 1 Airport Licence at Oban with RFFS Category 1 fire cover.
- If project was unsuccessful possible demand for repayment of ERDF Funding which amounted to £1.986m.
- Failure to remove a runway restriction affecting the ability to accommodate larger aircraft
- Lack of support from stakeholders for development opportunities from tourism, trade etc.
- Island communities do not adequately utilise the service provided.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

The main finding of our review is that the adverse issues which occurred over the first PSO project have been recognised and where they related to the ongoing procurement processes have been eliminated in order that the same mistakes are not repeated.

It is important to note however that the failure to prepare a full business case in advance of the original PSO project resulted in decisions being made without critical information, which may have radically altered those decisions.

6 RECOMMENDATIONS

Four recommendations were identified as a result of the audit, all of medium priority. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of the Executive Director, Development & Infrastructure Services.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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 fundamental, material or minor. The definitions of each classification are set out below:-

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;

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;

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.

7 AUDIT OPINION

Based on the findings we can conclude that the current process for the tender for the PSO operation and the airport management operation has identified and accounted for the failures of the past and has developed an exemplar for future projects.

The project to replace the PSO operator has been managed in a professional manner using accepted project management techniques and has followed an agreed programme designed to achieve the desired outcomes while eliminating or mitigating the identified risks.

The risks identified at 3. above were systematically addressed by the project team and eliminated one by one to such an extent that monthly reporting to the Executive Committee is no longer considered necessary.

During critical periods the project team held weekly update meetings and over the term of the project monthly reports on status were submitted to the Council's Executive Committee. In this way the project timetable was achieved or the need to extend the programme or include additional tasks was approved and understood by those involved.

The development of a Business Plan and possible options at an early stage in the project assisted the project team to develop its sourcing strategy and in particular to involve stakeholders in commercial discussions to ensure optimum tender responses for the Council.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit

Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the staff within Development and Infrastructure Services and Strategic Finance for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	<p>Audit was unable to reconcile the flight and passenger statistics submitted to the CAA for the months of June 2009 to August 2010; to the detailed flight statistics provided by Airport Admin Staff to provide historical trend data on which to base business plan calculations. In some cases the differences were sufficiently significant as to give concern for the integrity of some of the returns. We understand that both sets of statistics are derived from the same source.</p>	<p><i>Medium</i></p>	<p>It will be necessary to ensure that regardless of the management regime in place statistics in relation to volume frequency and type of flights landing and taking off at each of the Council's airports are provided and can be reconciled to any statutory and statistical returns that have to be submitted to internal and external parties.</p>	<p>Airports, Piers & Harbours Manager</p>	<p>31 July 2011</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	<p>Following criticism in previous internal and external audit reports on the quality of consultants used to provide expert advice the Council on this occasion engaged ,at some expense, Mott MacDonald, highly regarded consults who had provided a “Review of Air Services in the Highlands and Islands” for HITRANS and ZetTRANS in February 2010. Despite this we found errors and a repetition of the Council’s own figures in their report “An Air Services Business Plan for Argyll and Bute Council”. There were however some useful comments the most important being finding number 2.2 above.</p>	<p><i>Medium</i></p>	<p>When appointing external consultants it is imperative that the Terms of Reference are clearly stated and understood by both parties. In Internal Audit’s view the terms were clearly stated but did not appear to be clearly understood by the consultants whose report did not fully address some matters but went beyond the extent of the Council’s requirements on others dealing more with the long term than the present.</p>	<p>Executive Director Development & Infrastructure Services</p>	<p>Immediate as and when required</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	The current process for the tender for the PSO operation and the airport management operation have identified and accounted for the failures of the past and have developed an exemplar for future projects.	Medium	The project programme/plan should be amended for use as a template and incorporated as an Appendix within the Council Capital Programme Planning and Management Guide and Project Management Guidelines as an exemplar.	Executive Director Development & Infrastructure Services in conjunction with the Chair of the Asset Management Strategic Board	31 August 2011
4	The project team have completed the tasks required to allow the continuation of the PSO within budget and the future commercial development of the Council's airports has now to be addressed	Medium	In preparation for the CAA operational review in November 2011 and to ensure the commercial development of the Council's airports as required by the Business Plan an appropriate project team should be appointed to take this forward	Executive Director Development & Infrastructure Services	31 August 2011