

Internal Audit Report - Draft

– NDC Harbour Authority 2023/4

December 2023

Service Objective

To provide management with independent assurance that risks associated with the Ilfracombe Harbour are managed effectively.

Audit Opinion

Reasonable Assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Risks or Areas Covered

- **key concerns or unmitigated risks**

1. Ineffective governance and oversight of the Harbour operation

- Development Strategy.

2 Failure to manage health, safety and security risks related to harbour facilities, equipment, infrastructure, harbour office etc leading to downtime, loss of income or injury.

3 Failure to undertake effective financial management resulting in financial impact and increased fraud risk.

4 Performance may not be monitored, leading to inefficiency or poor customer satisfaction.

- Performance measures.
- Business Plan.

Level of Assurance

Substantial Assurance

Substantial Assurance

Reasonable Assurance

Reasonable Assurance

These areas / risks combine to provide the overall audit assurance opinion. Definitions of the assurance opinion ratings can be found in the Appendices. The observations and findings in relation to each of these areas has been discussed with management, see the "Detailed Audit Observations and Action Plan" appendix A. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed.

Introduction

Ilfracombe is the largest harbour on the North Devon Coast. North Devon Council is the Harbour Authority for Ilfracombe Harbour and has statutory duties under the Harbour Act 1964. Other legislation relevant to the harbour includes the Ilfracombe Harbour Act and Orders 1870 to 2019. Ilfracombe Harbour is also the Local Lighthouse Authority regarding Aids to Navigation. The harbour has a significant tidal range between approximately 3 metres and 10 metres, resulting in a rapid tidal stream of 2-3 knots, along with rip tides. Passenger and coastal ferries operate from the harbour along with commercial fishing vessels, commercial tour boat operators and there is mooring for visiting and local recreational craft. Other duties undertaken by the service include the administration and billing of moorings within the Statutory Harbour Area, the commercial operators, and advertisers.

The audit did not review Lynmouth Harbour, which the council is also responsible for. We note the council is currently taking action to become the Statutory Harbour Authority for Lynmouth.

Executive Summary

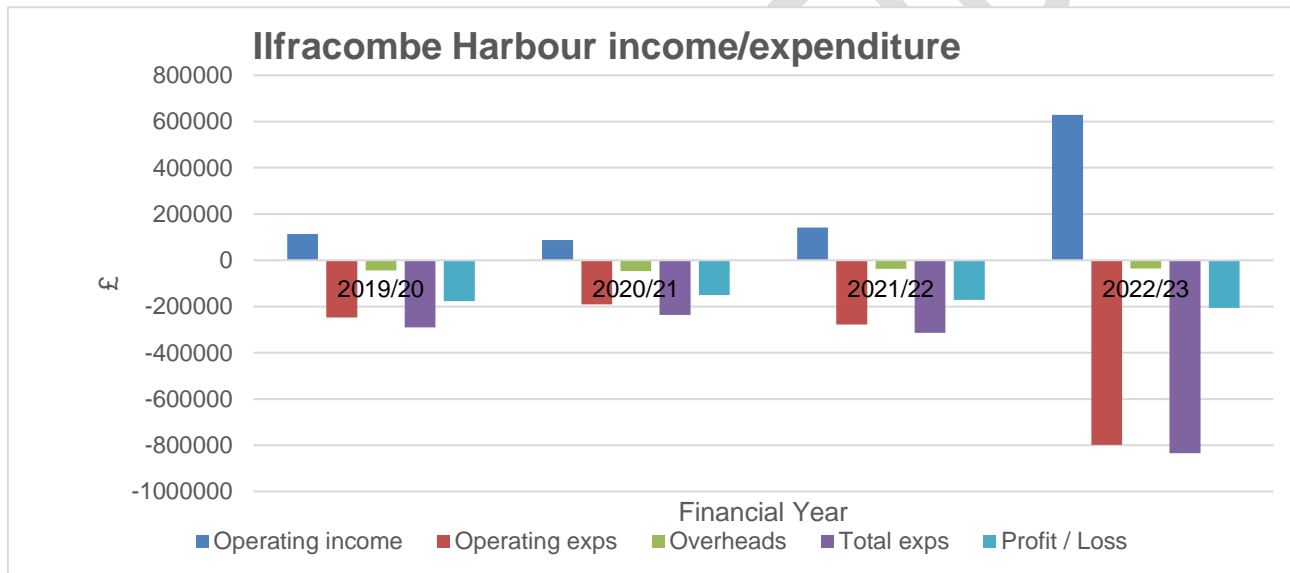
The Council operates a well organised and effective harbour service providing good value to its customers and enhancing the experience of visitors to the area. Experienced personnel are competent with systems of operation that help keep the public safe in a busy working harbour, while aiming to maximise revenue to the authority and help support the future development of the area. The harbour has operated with a deficit for several years averaging between £150-£200k on average. Going forward, we are told that the Harbour is aiming to cover its own costs in the mid to long term with the addition of the water sports hub and Sea School. Update of the Development Strategy and creation of a new Business Plan may help achieve this and ensure focus on longer term requirements.

The Harbour Board meet regularly and is made up by appropriately maritime-experienced independent members and NDC Councillors. Meetings are well recorded with consistent agenda items. Health and Safety risks are well defined and managed accordingly, with policies, plans and procedures readily accessible and reviewed regularly (with one exception in 2.2 below). ABPmer undertook the required three yearly audit of Port Marine Safety Code compliance in June/July of 2023 and found good compliance with the Code. The councils Health and Safety officer also undertakes audits every quarter, the results of which are reported to the Harbour Board in accordance with the Code.

A Development Strategy for the Harbour was created in 2012 to cover the period up to 2026. It sets out the long-term development needs and opportunities of the harbour. It is not clear that this Strategy has been reviewed or updated since that time. We have also seen a Business Plan created in November 2019 to cover the period 2020-23. It does not appear that this plan has been subsequently updated or reissued.

Commercial and community relationships have been developed and investment has been made in making the harbour infrastructure more practical, professional, and welcoming to tourism. Uniformity rules for advertising space has improved harbour aesthetics and enabled clear communication of pricing to businesses. There has been an increasing focus on securing grants and other funding to improve harbour facilities and infrastructure, for instance significant funding from the Marine Maritime Organisation.

MS Oldenberg and other freight/ passenger ferries operate a service to Lundy and provide important commercial income during the season from March to October. A ferry service to Wales is also a potential future development.



Overheads for the service have reduced from £43.7k in 2019/20 to £35.7k in 2022/23 reflecting efficiency savings made during this time.

Income and expenditure include grossed up income from the sale of fuel and the expenditure of the fuel, with the surplus of £20k included in the £200k deficit for 2022/23.

Operating income has increased from £113.5k in 2019/20 to £628.9k in 2022/23.

Net losses for the service have increased from £177k in 2019/20 to £205k in 2022/23.

Officers have a medium-term objective of becoming cost neutral in the next three to five years.

Officers have excellent local knowledge which is beneficial in managing harbour operations and risks and taking advantage of opportunities.

Performance management is an area we consider that some improvements could be considered, and we are told a review of Key Performance Indicators is currently underway. Measures for some other harbours include boats visiting/moored, length of stay/value, visitor numbers, their experience and similar indicators but this may not be appropriate for this harbour due to its location. The Harbour Board should consider how to best measure harbour activity and the user experience.

The detailed findings and recommendations regarding these issues and less important matters are described in Appendix A. Recommendations have been categorised to aid prioritisation. Definitions of the priority categories and the assurance opinion ratings are also given in the Appendices to this report.

Management are required to agree an action plan, ideally within three weeks of receiving the draft internal audit report.

Written responses should be returned to Matt Whale (matthew.whale@devon.gov.uk). Alternatively, a meeting to discuss the report and agree the action plan should be arranged with the named auditors.

Value Added

We will consider our experience in auditing other authorities' harbours to share best practice and processes.

Issues for the Annual Governance Statement

The evidence obtained in internal audit reviews can identify issues in respect of risk management, systems and controls that may be relevant to the Annual Governance Statement.

Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

Matthew Whale
Internal Auditor

Paul Middlemass
Audit Manager

Detailed Audit Observations and Action Plan

1. Risk Area: Ineffective governance and oversight of the Harbour operation.		Level of Assurance	
		Substantial Assurance	
Opinion Statement:			
<p>The council exercises good governance and oversight arrangements over the harbour. The Harbour Board is made up of four NDC councillors and four independent members, appointed based on their relevant maritime experience. The S151 officer is the Designated Person and meetings of the Board have taken place regularly (typically three times a year), with good quality reports and standing agenda items for updates. These include risk management, financial monitoring, future projects progress for both Ilfracombe and Lynmouth (not covered in this audit). Decisions of the Board are referred to Full Council to approve.</p> <p>Among the previously approved and future projects we note an impressive array of grant funding applications that have been put together by the Harbour Master and consider this a particular strength when looking at the ongoing development of the Harbour, Sea School, Watersports Hub, and engagement with the local community. The Development Strategy for 2012-2026, whilst still in date, needs review given events such as Brexit, the Covid-19 pandemic along with sustained pressure on council finances and the cost-of-living crisis. The strategy itself (1.3.4) states it is subject to ongoing review by the Harbour Board. The strategy did not include the developments since built at Larkstone such as the Lime Kiln Café Bar, Watersports hub, sea school and slipway. We also note in section 4 the need for a business plan outlining objectives and targets for the next few years.</p>			
No.	Observation and Implications	Impact / Priority	Management Response
1.2	<p>The council's website needed review to update it and ensure links to other pages worked.</p> <p>The website links to Ilfracombe Harbour Board members and Harbour Board meetings were not working from https://www.northdevon.gov.uk/business/ilfracombe-harbour/ilfracombe-harbour-board. These provided details of meeting notes only up to Feb 2019, rather than the recent meeting details.</p> <p>Several other Harbour related links on the website were found to be broken during testing or had links to out-of-date content.</p> <p>The "Application forms" links for Mooring a boat, applying for a Launching Permit, and Dinghy Storage took us to the central council applications section, but the options were not available in the different applications available.</p>	Low	<p>We will review the website and ensure links and pages are accurate and complete.</p>
			<p>Action Officer: Harbour Master</p> <p>Due Date: 1 April 2024</p>

1.2	<p>The Development Strategy 2012-2026 should outline the councils' longer-term aspirations and goals for the harbour and the local environment. While the strategy is still in date, it appears not to have been reviewed since its issue despite the significant changes that have occurred over the period. The absence of a current long-term strategy may mean the council and Harbour Board are not focused on the long-term challenges and opportunities facing the harbour.</p> <p>This should be considered by the Harbour Board.</p>	Medium	We will refer this to the Harbour Board to assess whether a new Development Strategy would be beneficial.	
			Action Officer: Harbour Master	Due Date: 31 May 2024

2. Risk Area: Failure to manage health, safety and security risks related to harbour facilities, equipment, infrastructure, harbour office etc leading to downtime, loss of income or injury.	Level of Assurance
	Substantial Assurance

Opinion Statement:

ABPmer undertook the three yearly audit of the Port Marine Safety Code in June/July 2023 and confirmed that the service was compliant with the code.

Many plans, policies and byelaws govern harbour activities. Apart from 2.2 below, all were found to be current. Harbour byelaws are currently being reviewed with a view to moving away from them in favour of locally managed 'General Directions' which do not need to be signed off by the Secretary of State. This should provide swifter and more flexible management of risks in the harbour. Another observation was the need to develop stakeholder consultation as the Ilfracombe Community Harbour Forum which had not met since the start of the Covid-19 emergency.

The councils Health and Safety officer also undertakes a scheduled range of audits every quarter which is reported to the Harbour Board. This is required to confirm that the Marine Safety Management System is working correctly in compliance with the Port Marine Safety Code.

An annual report is provided by the Designated Officer (the Harbour Master) which is another requirement from the Code. This provides information on harbour governance, management, finances, and compliance with legal requirements.

Daily rounds by the Harbour Master and staff are well organised and include dynamic risk assessments, safety, and maintenance inspections. Life jackets have been exchanged for externally maintained buoyancy devices. At the time of our audit, officers noted that a dynamic inspection had revealed the failure of a harbourside float chain. This had been recorded in the fault log and allocated a low priority as not needed until March 2024 when MS Oldenburg will commence operations.

Cranes are not operated by the service. Instead, an external operator has two sizes of crane, brought in twice a year to lift/deposit boats to/from the quayside before and after the spring/summer season. All risk assessments were up to date and are split into land, marine and hybrid. Of slight concern is an apparent IT issue noted in 2.1 below regarding access to the risk assessments. The Harbour Master is currently looking into future system improvements which might pull together all the safety and risk systems under one roof called 'Harbour Assist' which could manage risk assessments in the future.

The website link to the Ilfracombe Harbour PSPO is broken and needs to be updated/repaired: <https://www.northdevon.gov.uk/media/381760/pspo-29032023-ilfracombe-harbour-redacted.pdf> (see also 1.2 above).

An observation about the harbour office itself, is that it does not permit full view of the harbour, including the launch slipway of the inner harbour. The stairs to the mezzanine floor are very steep with shallow steps and might be considered difficult to ascend/descend in the case of a fire. A useful digital information screen is situated on the harbour office wall providing the public with salient maritime information. We have not looked at fire extinguishers as they are covered in the Health and Safety audit, however during our visit to the harbour office an external inspector visited the site to maintain the fire equipment.

No.	Observation and Implications	Impact / Priority	Management Response	
2.1	At the time of our visit, the Harbour Master had access to the corporate I:drive and the Risk Assessments. However, the assistants could not access them. This has been requested, but not yet granted.	Low	We will approach IT to resolve this issue.	
			Action Officer: Harbour Master	Due Date: 29 February 2024
2.2	The Ilfracombe Harbour Edge Protection Policy was updated in July, but has not been put onto the website.	Low	We will ask IT to ensure it is added to the site.	
			Action Officer:	Due Date: 29 February 2024

3. Risk Area: Failure to undertake effective financial management resulting in financial impact and increased fraud risk.	Level of Assurance
	Reasonable Assurance

Opinion Statement:

The Harbour Master is the budget holder and is aware of the Financial Regulations and contract procedure rules. Regular monthly meetings are held from June onwards between the accountant and Harbour Master. Whilst not minuted, we are told that the meetings are used to discuss any concerns, anomalies, or questions about the financial position of the service. Budget Trading Accounts are presented to the Harbour Board by the Director of Resources and are published on the NDC website throughout the year. Further detail on costs versus income is provided in the Executive Summary. The Harbour reported a loss of £200k for 2022/23.

Harbour fees were reviewed by management in November 2022 considering CPI inflation and reviewed again in November 2023. The harbour continues to benchmark itself against other SW harbours and remains the cheapest in the region which encourages traffic albeit at a cost of reduced income for the council.

The Harbour Master has access to a corporate purchasing card, which is not used very much, and a request to sample November statement was a NIL balance. We were however able to observe them log into the Nat West system to view and allocate codes for transaction types which are then checked and applied to the NDC finance system by the accountant. We also sampled a fuel duty transaction which is outside the HMRC scheme for private sales of red diesel due to the 60/40 split of propulsion and domestic use. The invoice had been raised correctly and paid by card through the service's card machine.

Officers are salaried with an agreed allowance for unusual shift patterns varying throughout the year, including Bank Holidays and callouts around the clock.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
No observations and recommendations recorded. We have noted in Section 4 that a Business Plan would support focus on the income and expenditure requirements for several years to become cost neutral, or at least to reduce the deficit as much as possible.				

4. Risk Area: Performance may not be monitored, leading to inefficiency or poor customer satisfaction.	Level of Assurance
	Reasonable Assurance

Opinion Statement:

We were told that the Key Performance Indicators used in the council performance system, Pentana, are pointless, as they are accounted for elsewhere. Performance measures are important to support assessment of a wide range of indicators related to the health and vibrancy of the harbour. A review of what measures are appropriate should be undertaken at the earliest opportunity. The HM has suggested including response times to complaints and investigations as one possible indicator. Other performance measures could measure harbour activity such as the number of boat moorings, lengths of stay etc to provide a picture of the health and impact of the harbour.

We sampled some complaints received including one that was referred to the NDC Conservation Officer regarding the colour of ladders used in the harbour. The ladders used were correct and the complaint was replied to in a courteous, professional manner. The complaints/incidents log appears to be kept up to date, and records contain suitable detail. Four incidents are recorded this year to date, including a June 23 report of three passengers being injured (one seriously) on a RIB. This is being investigated by the Marine Accident Investigation Branch.

Additional income streams are being investigated including an electricity charging point being considered for the harbourside for boats and cars. One option would provide free installation with a percentage of income coming to NDC. The Sea School will have its own website and will self-promote when operational providing new income. The Watersports Hub and Lime Kiln Café / Bar will also contribute to enhancing public enjoyment of the area and bringing income to the local economy.

No.	Observation and Implications	Impact / Priority	Management Response	
4.1	Key Performance Indicators are not adding any value or providing any useful information, with the risk that customer service is unsatisfactory, or performance cannot be measures.	Medium	We will refer to the Harbour Board for consideration of the measures they would find beneficial.	
			Action Officer: Harbour Board	Due date: 10 May 2024

4.2	<p>A Business Plan for the Harbour was issued in Nov 2019 to cover 2020 – 23. A current Business Plan is not held specific for the Harbour, although there are elements in the Place, Property and Regeneration Service Plan and the Programme Management Office medium to long term plan.</p> <p>As a significant and discrete council asset of importance to the local economy, we consider a business plan would be beneficial in support consideration of the resources and priorities to maintain and develop it in the medium term. It should also link to business development and tourism objectives. This includes focus on how to make the harbour financially solvent, or at least reduce the annual debt being incurred. We note this is a requirement of some harbour authorities; this is not the case for this harbour.</p> <p>We note the new business plan produced for Salcombe Harbour as a good example.</p> <p>We are aware that the Harbour Board is to consider the need for a business plan.</p>	Medium	We will refer to the Harbour Board for consideration of the need for a Business Plan.	
Action Officer: Harbour Master			Due date: 10 May 2024	

CONFIDENTIAL

Scope and Objectives

The audit is intended to provide management with assurance that risks associated with the Harbour are managed effectively.

We will consider the following risk areas:

Risk 1. Ineffective governance and oversight of the harbour operation.

Risk 2. Failure to manage health, safety and security risks related to harbour facilities, equipment, infrastructure, harbour office etc. leading to downtime, loss of income, or injury.

Risk 3. Failure to undertake effective financial management and increased fraud risks.

Risk 4. Performance may not be monitored, leading to inefficiency or poor customer satisfaction.

Inherent Limitations

The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

Confidentiality under the National Protective Marking Scheme

This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies. This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

Marking

Definitions

Official

The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.

Official: Sensitive

A limited subset of OFFICIAL information could have more damaging consequences if it were lost, stolen or published in the media. This subset of information should still be managed within the 'OFFICIAL' classification tier but may attract additional measures to reinforce the 'need to know'. In such cases where there is a clear and justifiable requirement to reinforce the 'need to know', assets should be conspicuously marked: 'OFFICIAL-SENSITIVE'. All documents marked OFFICIAL: SENSITIVE must be handled appropriately and with extra care, to ensure the information is not accessed by unauthorised people.

Definitions of Audit Assurance Opinion Levels

Definition of Recommendation Priority

Assurance	Definition		
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.		High
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.		Medium
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.		Low
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.		Opportunity
			High
			Medium
			Low
			Opportunity

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, South Hams & West Devon, Torridge, North Devon councils and Devon & Somerset Fire and Rescue Service. We aim to be recognised as a high-quality internal audit service in the public sector. We collaborate with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In conducting our work, we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards. The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at tony.d.rose@devon.gov.uk