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# 1. Executive Summary – Property Asset Management

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## Introduction

- 1.1 Our interim audit activity, is concerned with undertaking reviews of selected systems. Our approach in 2003 - 2004 sought to obtain assurance, by systems review and testing together with discussion with officers, as to the existence and effectiveness of a number of controls considered essential to ensure that reliance could be placed on the operation of the identified systems.
- 1.2 This report summarises the findings from our audit work and, where appropriate, makes recommendations to strengthen existing controls or otherwise address the identified weaknesses. It should be noted that the weaknesses recorded are only those which came to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses that may exist.
- 1.3 This was a joint review, performed in conjunction with the Council's Internal Audit department, and covered the Council's arrangements for Asset Accounting and Asset Management.
- 1.4 We conducted our audit in accordance with Audit Scotland's Code of Practice and Argyll & Bute Council's Internal Audit Manual. These documents make clear that it is the responsibility of management to ensure that internal control systems are appropriate
- 1.5 The main aim of the Audit Scotland capital accounting review was to confirm that the Council's operational and non-operational land and buildings are accurately recorded in the financial ledger.
- 1.6 Internal Audit's main objective was to evaluate the efficiency and effectiveness of the systems supporting the introduction of a Council wide property asset management plan.
- 1.7 This report summarises the findings from the joint review and, where appropriate, makes recommendations to address the weaknesses identified. It should be noted that communication of weaknesses does not absolve management from its responsibility for the maintenance of an adequate system of control. The Action Plan included within this report sets out the agreed action to be taken in response to the main recommendations, graded to show their relative priority, and the timescales within which these issues are to be addressed. The Action Plan should be read in conjunction with the relevant references from the main body of the report.

## Summary of Main Findings

- 1.8 Estates and Finance Sections maintain separate registers, but these systems do not have a consistent reference number for the same property. This, and the fact that the quality of the description and address of a property can vary significantly, means that the two systems have not been reconciled. The Estate's Property Register does not contain valuation and financial information. This data is included within Finance's Asset Register, which is used as the basis for preparing the Financial Statements.
- 1.9 The absence of ongoing reconciliation of the two Registers and the inconsistent referencing methods used by the two lists could lead to further discrepancies between

the systems and uncertainty over which provides a comprehensive record of asset records. We recommend that either a single unified asset and property management record is developed or that the reconciliation procedures and cross-referencing of the properties is improved.

- 1.10 Substantive testing identified 295 properties on the Property Register that were not on the Asset Register. A sample test of 10 properties from the Estates Property Register found that 7 were still in use by the Council. This suggests that a significant proportion of the 295 properties may be incorrectly omitted from the Asset Register. The value of the Asset Register understatement is not known, but 16 properties did have valuations attached totalling £401,000.
- 1.11 There were also 74 entries on the Asset Register that were not included on the Property Register and 30 assets appeared twice on the Property Register. Assets sometimes consisted of multiple entries within both Registers and we found and linked 149 Property Register Records to 57 Asset Register records. Also 32 Asset Register Records were matched to 16 Property Register entries as part of a reconciliation process.
- 1.12 A review of 15 title deeds, held by the Legal Section, found that 5 properties were still in use by the Council but were not included in either the Estates or Asset Registers.
- 1.13 The Council owns several classes of properties that are not valued or capitalised. These are included in the Estate's Property Register, but at £nil valuations. These 105 assets include off-street car parks, piers, boat moorings and shelters. The categories should be reviewed and assigned valuations in accordance with the Code of Practice on Local Authority Accounting
- 1.14 Within the Asset Register, 11 assets (valued at £740,054) were identified which were not owned by the Council. These assets include Brum Villa, Stable Cottage Rothesay, Rosneath Community Education Centre and Loch Lomond Park Centre. We consider that the existing asset valuation process should be amended to ensure that tests to confirm legal ownership are included. A standard form exists to inform Finance of the acquisition, transferral or disposal of assets, but these forms are rarely used and this process needs to be improved.
- 1.15 Five properties were identified where the asset register classifications and valuations appear inconsistent with the nature and use of the assets. These assets should be reviewed to ensure that valuations and classifications are soundly based.
- 1.16 Asset Management is a wider concept than Asset Accounting. This audit review also considered whether other non-financial aspects of the asset management planning process are adequate to support the introduction of the Asset Management Plan, within the context of a Prudential Code<sup>1</sup> Framework to comply with Part 7 of the Local Government in Scotland Act 2003.
- 1.17 In 2000 the Audit Commission, in England and Wales, outlined the key data required for an authority to be able to prepare a meaningful asset management plan. The adequacy of existing data held by Argyll & Bute Council was variable and additional data is required. The data, where available, is held across a number of Council systems and in some cases the data is inconsistent between systems. A

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<sup>1</sup> CIPFA "The Prudential Code for Capital Finance in Local Authorities"

comprehensive single source of data should be developed to provide the information required to support an Asset Management Plan.

- 1.18 It should be understood that weaknesses highlighted in this report are only those that have come to our attention during normal audit work in accordance with the Code of Audit Practice and therefore are not necessarily all of the weaknesses that may exist.
- 1.19 The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent from the Argyll and Bute Council Internal Audit Manager and Audit Scotland.
- 1.20 The factual accuracy of the content of this report, and the remedial action to be taken, has been agreed in discussion with the appropriate officials.
- 1.21 The co-operation and assistance afforded to audit staff during the course of the audit are gratefully acknowledged.

### **Conclusions**

- 1.22 Our overall conclusion is that current procedures provide inadequate control over the management of the Council's property assets. There is a strong possibility, that without remedial action, there will be a misstatement of the property assets in the financial statements, but this cannot be quantified due to insufficient information. Current data sources and IT systems do not facilitate the collection and maintenance of sufficient information to support the introduction of a corporate asset management plan.

## 2. Action Plan

	Recommendation	Responsible Officer	Action	Date	Update 30 April 2004
1	The Council should decide whether a single asset management and asset register system should be adopted. <b>Priority: High</b>	Chief Asset Manager	The decision on this will be taken when the Chief Asset Manager is in place.	30 September 2004	It cannot be determined as yet when the Chief Asset Manager will be in post. A new date of 31 December 2004 has been set as a more realistic date.
2	The number of properties in the existing Property Register and Asset Register are to be fully reconciled. <b>Priority: High</b>	Estates Manager	The reconciliation will be carried out.	30 April 2004	To be completed Week ending 7 May 2004
3	The 295 assets, which appear on the Property Register but are not included on the Asset Register, are to be investigated and added to the Asset Register, if appropriate. <b>Priority: High</b>	Estates Manager  Finance Manager – Development Services	The Asset Register will be updated as appropriate following the completion of the reconciliation.	7 May 2004	On Target
4	The 74 assets included within the Asset Register but not the Property Register is to be investigated and the Asset Register records validated or removed. <b>Priority: High</b>	Estates Manager  Finance Manager – Development Services	The Asset Register will be updated as appropriate following the completion of the reconciliation.	7 May 2004	On Target
5	A unique Gazetteer reference should be included in Registers to assist cross-referencing. <b>Priority: High</b>	Chief Asset Manager	The decision on this will be taken when the Chief Asset Manager is in place.	30 September 2004	See 1 above.
6	A complete review of title deeds is to be undertaken to confirm the completeness of the Asset Register <b>Priority: High</b>	Head of Legal and Protective Services	The review of title deeds will be carried out.	30 September 2004	On Target

	Recommendation	Responsible Officer	Action	Date	Update 30 April 2004
7	All off-street car parks, piers, moorings and shelters (105 assets) are to be classified and valued appropriately. <b>Priority: High</b>	Estates Manager  Finance Manager – Development Services	The treatment of these types of asset will be reviewed.	30 April 2004	To be completed week ending 7 May 2004
8	The 11 assets on the Asset Register that are no longer owned by the Council are to be reviewed and, if appropriate, removed. <b>Priority: High</b>	Finance Manager – Development Services	The assets will be reviewed and the Asset Register updated as appropriate.	30 April 2004	To be completed week ending 7 May 2004
9	Revaluation procedures are to be amended to include a confirmation of legal ownership. <b>Priority: Medium</b>	Estates Manager	To include within the revaluation process a check on ownership.	30 September 2004	On Target
10	The process of informing Strategic Finance of any asset additions or disposals is to be reviewed and broadcast to responsible officers in each Department. <b>Priority: Medium</b>	Finance Manager – Development Services	The process will be reviewed and responsible officers informed.	30 June 2004	On Target
11	The Asset Register is to be reviewed to ensure properties have been valued using an appropriate valuation method. <b>Priority: Medium</b>	Estates Manager  Finance Manager – Development Services	The asset register will be reviewed for the method of valuation.	30 September 2004	On Target
12	The wording of the accounting policies and fixed assets notes in the Financial Statements is to be reviewed to ensure that this reflects the actual valuation methodology and is in accordance with Guidance. <b>Priority: Low</b>	Finance Manager – Corporate Accounting	The wording will be reviewed.	30 April 2004	To be completed week ending 7 May 2004
13	Appropriate property data is to be obtained in accordance with the timetable for the introduction of the asset management plan. <b>Priority: Medium</b>	Chief Asset Manager	The information will be obtained as required.	The timescale for this will be determined when the Chief Asset Manager is in place.	See 1 above.

	Recommendation	Responsible Officer	Action	Date	Update 30 April 2004
14	Property Services should formulate a working group made up of the internal contributors of property data to develop Asset Management. <b>Priority: Medium</b>	Chief Asset Manager	The decision on this will be taken when the Chief Asset Manager is in place.	The timescale for this will be determined when the Chief Asset Manager is in place.	See 1 above.
15	An exercise should be conducted to determine how compatible the current property IT systems are for supplying data for the corporate asset management system when this is developed. <b>Priority: Low</b>	Chief Asset Manager	The decision on this will be taken when the Chief Asset Manager is in place.	The timescale for this will be determined when the Chief Asset Manager is in place.	See 1 above.