



Internal Audit Report

FINAL

Customer Services

Review of Asset Management

April 2011

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Asset Management, Customer Services as part of the 2010/11 Internal Audit programme.

In recent years to ensure the widest possible review of audit topics related to capital expenditure and procurement we have carried out a Major Capital Review which included all of these topics with audit reports being generated as required by the review of the individual topics and a final overarching report gathering the outcomes of the various reviews and generating recommendations on a corporate basis. Asset Management falls into this category and the Asset Management Strategic Board (AMSB) is responsible for the development and implementation of a range of procedures and processes to ensure best practice in asset management. The AMSB is chaired by the Head of Facility Services.

2 AUDIT SCOPE AND OBJECTIVES

The AMSB achieved some early success in the previous year in championing the business case process and capital and asset management plans. As a result a further development programme was prepared setting objectives to be achieved during 2010/11. The objective of this review will be to verify that appropriate progress is made and the Boards objectives are achieved in accordance with the timetable.

- Tests will be carried out to evaluate these areas, and identify any problems.
- Reports produced will be reviewed to evaluate their timely presentation and effectiveness.
- Checks will be made to ensure all relevant authorised documentation is filed in the appropriate manner, and is available for inspection.

Any problem areas will be highlighted, and brought to the attention of the Heads of Service prior to the Report stage.

3 MAIN FINDINGS

The main findings of the review relate to the development of performance data in respect of individual assets, its incorporation into Service Asset Management Plans and its future use in improving management of assets and setting targets for improved asset performance as well as the ongoing monitoring of that performance.

The Asset Management Strategic Board has achieved significant improvement in the Council's approach to Asset Management over the last two years particularly by prioritising and targeting specific asset groups. The work plan for 2011/12 continues this approach and will require the full commitment of Development and Infrastructure and Community Services Departments.

4 RECOMMENDATIONS

Eleven recommendations were identified as a result of the audit; 3 of high priority, 6 of medium and 2 of low priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Chair of the Asset Management Strategic Board.

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.

5 AUDIT OPINION

Based on the findings we can conclude that The Asset Management Board recognises fully its responsibilities and has set an achievable work plan for the project. Progress is monitored on a monthly basis and while some aspects of the work plan may be subject to delay due to prioritising of tasks this is addressed and revised accordingly. The Asset Management Process which is being developed is highlighting possible resource issues for the future in relation to the gathering and recording of performance data. These are acknowledged by the AMSB and will manifest themselves initially in the

Property Services Service Review being carried out in 2011. Thereafter other Services may encounter similar situations.

A review of the structure of the Asset Management Strategic Board is included in the recommendations at Appendix 2 and in carrying out this review Internal Audit is of the opinion that the Board must address the need for challenge in Services' use of land and buildings both leased and owned. There are a number of ways in which this could be done and the Board has a work package to consider a charging regime for use of buildings based on a corporate landlord notional rent scheme. The Property Services Section of Facility Services within Customer Services Department acting as the Corporate landlord would charge rent internally to Services for the building space they utilise to provide their services. In return Property Services would as landlord maintain the premises and meet the accommodation requirements of Services from its property portfolio. Services would know the actual cost of space and would be aware of the benefit to them of reducing usage as well as the additional cost of expansion.

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.

6 ACKNOWLEDGEMENTS

Thanks are due to the members of the Asset Management Strategic Board and their colleagues in each of the Council Services 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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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
2	The 2012/13 SAMP's will be the third time Services will have completed this task. Lower than targeted scores should now be considered unacceptable.	Medium	SAMPS's with poor scores should be returned for improvement to a strict timescale.	Chair Asset Management Strategic Board	September to December 2011
4	The reconciliation of the Finance asset register AIRS with Services Asset Inventories is taking longer than originally anticipated	High	The Asset Management Strategic Board should ensure that the Property reconciliation is complete and any actions agreed by April 2011 and a programme prepared for the reconciliation of all other assets during 2011/12.	Chair Asset Management Strategic Board	April 2011 The programme will target completion by 31 March 2012.
5	The targeted number of asset maintenance plans to be in place has not been achieved	Medium	The Asset Management Strategic Board should review its position on the requirement for maintenance plans and in conjunction with Services set new relevant targets.	Chair Asset Management Strategic Board	May 2011
6	Asset performance ratios in addition to condition and suitability have not been	High	It is important that Services representatives on the AMSB communicate	Chair Asset Management Strategic Board	This is progressing on an ongoing basis but is expected to take

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	recommended by the representatives of Development and Infrastructure Services and Community Services (no representative) in respect of non property assets. These are likely to be cost or quantity based		requirements within their own service. It is also important that each Service is appropriately represented on the AMSB and it is recommended that the Board's structure is reviewed to meet the emerging needs.		until 31 March 2012 to complete
7	Given the improved templates provided some IBC's, in particular, for "global" projects have been less than satisfactorily completed. If the global concept for asset sustainability projects is to be retained then the template must be properly completed rather than the bare minimum as was the case in many instances this year.	Medium	The Chair of the AMSB should advise Services of the business case completion and timescale requirements for 2011/12 as soon as possible.	Chair Asset Management Strategic Board	This was done at the AMSB meeting on 29 th March 2011
8	The Asset Management Strategic Board have found that scoring matrix on affordability does not	Medium	The AMSB should review the evaluation matrix for IBC's and OBC's urgently.	Chair Asset Management Strategic Board	30 September 2011.

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	support low value, partly externally funded with relatively low level revenue savings due to the scoring being based on absolute monetary values rather than a percentage of the gross cost.				
9	The Asset Management Strategic Board has of necessity been very much involved in process development to ensure the timely preparation of CAMP, SAMP, Capital Plans and Business Cases. Now that performance measures are available particularly for property assets the Board needs to take on more of a challenge role	Medium	In conjunction with recommendation 6 this should be considered as part of the recommended structure review.	Chair Asset Management Strategic Board	As in 6 above this is an ongoing process and its implementation should complete by 31 March 2012.
10	The Capital Programme Planning and Management Guide Appendix 4 provides a template for Project Outcome Review	High	The AMSB should obtain and examine Project Outcome Reviews from Services in respect of capital projects completed in	Chair Asset Management Strategic Board & Executive Directors as	The AMSB has arranged to consider the first reports at its meeting on 20 April and this will continue

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	for Asset Sustainability projects and also one for Service Development and/or Strategic Change Projects. The AMSB has not been provided with any Project Outcome Reviews during 2010/11 despite the certainty of projects having been completed.		2010/11.	advised by the Chair Asset Management Strategic Board	as an ongoing process
11	The final Guide was made available in June 2010; Appendix 6 provides for an annual report for Asset Sustainability Capital Projects. No reports were produced in respect of 2009/10.	Medium	The AMSB should ensure that each Service prepares an annual report on asset sustainability projects in respect of 2010/11 as soon as the capital monitoring reports for March 2011 have been finalised.	Chair Asset Management Strategic Board & Executive Directors as advised by the Chair Asset Management Strategic Board	30 June 2011