

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

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| CUSTOMER DEPARTMENT | CUSTOMER SERVICES |
| AUDIT DESCRIPTION | SYSTEM BASED AUDIT |
| AUDIT TITLE | LAND AND ASSET AUDIT |
| AUDIT DATE | NOVEMBER 2014 |

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Facility Services within Customer Services as part of the 2014/14 Internal Audit programme.

Facility Services provides a range of support to other Council Services. This includes asset management and estates services. The service has responsibility for the Council's corporate asset management processes together with the design and delivery of property related capital projects.

Strategic Finance maintains an Asset register via a system called AIRS. Information held includes Asset name and address (if applicable), financial information including NBV, depreciation, valuation basis and history. An Asset Management Board is also in place chaired by the Head of Facility Services and includes representatives from Property maintenance, Estates, Business improvement as well as each service department.

Facility Services within its service plan has a stated outcome 'Communities are safer and more successful through improved facilities' with various success measures including 'The Council ensures that its property assets are aligned to support service delivery requirements'.

There are various accounting classifications in relation to assets which are no longer required. This audit will review arrangements in relation to the following categories 1) Corporate Surplus Assets. 2) Assets Held for Sale.

When an asset is no longer operationally required it is classified as surplus. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction it is reclassified as an Asset Held for Sale.

Under Assets Held for Sale, Property, land and buildings for accounting purposes are classified as such when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.

- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of Property, Plant and Equipment will be reclassified as Assets Held for Sale.

As at 31/3/2014 the Council was showing 91 assets under the corporate surplus asset category and was showing 8 entries in the held for sale category. Internal Audit sampled 8 files from the corporate surplus asset category and 3 from the held for sale category.

2. AUDIT SCOPE AND OBJECTIVES

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity. Testing will be undertaken using CIPFA SBA control matrixes series 3, Inventories and Commercial Properties.

The audit scope will be limited to:

- Clearly defined asset disposal arrangements and policies.
- Compliance with relevant legislative requirements.
- Availability of an asset register /database which is complete with adequate controls in place.
- Valuation review and recording arrangements.
- Internal and External Reporting and Communication processes.

3. RISKS CONSIDERED

- Failure to adhere to legislative requirements
- Failure to adhere to internal policy and guidelines
- Failure to secure best value
- Reputational damage to the Council

4. AUDIT OPINION

The level of assurance given for this report is Limited.

| Level of Assurance | Reason for the level of Assurance given |
|---------------------------|---|
| High | 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. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource 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:-

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. FINDINGS

The following findings were generated by the audit:

Clearly defined asset disposal arrangements and policies

- It was evidenced that Argyll and Bute Council have a defined document entitled “Corporate Property Disposal Procedures” that details the various actions required of a Council officer/department when disposing of a corporate asset. The procedures have not been updated for some 8 years. The main headings of the procedures are:
 - Property declared surplus
 - Initial Marketing Process
 - Marketing
 - Preparation of report on marketing exercise
 - Settlement of transaction

Evidence that policies and procedures are being adhered to

The files were reviewed in order to evidence that the procedures had been adhered to. The findings were as follows:

- It was evidenced that all properties were declared surplus via a memo sent to the Director of Customer Services by the client department.
- Procedures require that the local members be advised of the marketing timetable but there was no evidence of this having been carried out.
- Where appropriate it was evidenced that Area Committees had received a report on the marketing outcomes.
- It was evidenced that procedures in respect of settlement transactions had been followed.

As at 31/3/2014 there was 8 properties categorised as Assets Held for Sale. In addition there were 91 property/assets categorised as Corporate Surplus Assets. It should be noted that not all Corporate Surplus Assets are available for sale and as at 31/3/2014, 16 of the 91 Corporate Surplus properties were at various stages of disposal.

- The timeline in securing title deeds was on average completed within a 2/3 month period. However it was noted that this period can be longer due to complexities and extenuating circumstances.
- It was noted that the procedures stipulate the setting of an appropriate closing date for offers in conjunction with Governance and Law Service. It is recommended a minimum marketing period should be set out in procedures in order to ensure best consideration as stipulated in Local Government (Scotland) Act 1973

Compliance with relevant legislative requirements

- Property Services are principally required to comply with the Local Government (Scotland) Act 1973 which stipulates that Councils are required to achieve the best consideration obtainable when disposing of property and also the Disposal of Land by Local Authorities (Scotland) Regulations 2010 Act which governs the rules for land disposal. The files reviewed complied with the legislation.
- In reviewing the sample for those properties which have now been sold i.e. 109 Alexander Street, Dunoon and the Tobermory school flats it was evidenced that the Council obtained a sales price comparable to the valuation.

Availability of an asset register /database which is complete with adequate controls in place

- Strategic Finance maintains an Asset register via a system called AIRS. Information held includes Asset name and address (if applicable), financial information including net book value (NBV), depreciation, valuation basis and history.
- A review of the information held by Strategic Finance in the Asset register highlighted discrepancies in respect of 3 properties which were no longer assets of the Council. These assets showed a total value of £13,500 in the balance sheet as at 31/3/2014.
 1. 88A Auchamore Road, Dunoon
 2. Land , Colbeck Place ,Rothesay
 3. WRVS Building, Alma Crescent, Oban
- It was evidenced that appropriate internal controls are in place in respect of authorisations, system access and segregation of duties.

Valuation review and recording arrangements

- The accounting policy of the Council as stated in our annual accounts is that “Assets included in the balance sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years”.
- Estates produce information annually to comply with the Councils financial regulations which provides valuation figures in respect of Assets held for Sale and Corporate Surplus Assets. This is forwarded to Finance to enable them to update asset register data.
- A review of the valuations provided by Estates to Strategic Finance as at 31/3/2014 highlighted material differences in information held on Strategic Finance asset register. These were:
 - Kilbowie House valued at £1 in the Asset registers which differs from a valuation of £450,000 provided by Estates.
 - Clydesdale Bank Building valued at £0 in the Asset register which differs from a valuation of £75,000 provided by Estates.

- Strategic Finance have confirmed that asset register valuations in respect of both Kilbowie House and Clydesdale bank are compliant with accounting standards International Financial Reporting Standard (IFRS5) which states that “assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease” and have been agreed as such by the Councils external auditors.
- The file review of Lochgilphead Primary School found that 2 offers were received and rejected during financial year 11/12. Both offers were substantially lower than the asking price of £400,000 which was set by Estates based on the sale price achieved for a similar site and market conditions at the time. A report produced by DVS Property specialists during financial year 12/13 subsequently valued the property at £250,000 and referenced previous offers in 11/12 being indicative of the revised market value and conditions for 12/13. The property is currently being re-marketed
- It was noted in Audit Scotland’s (External Auditors) report to those charged with Governance on the 2013/14 audit that there is a recommendation that members are advised of both the marketing valuation and the Asset Register value for assets when they are evaluating offer bids.
- Procedures do not stipulate valuation arrangements. Estates have confirmed that a rolling programme of valuations is in place undertaken by the Estates service as well as external valuers
- Valuations by nature are subjective and in respect of the arrangements in place it was evidenced that formal independent valuations are not always provided and depending on specific circumstances are not always required at the time of marketing an asset.

Internal and External Reporting and Communication processes

- Estates management prepare a report on a monthly basis to the Customer Services Departmental Management Team meeting which gives an update on the status of property that is available for sale. The report highlight's :
 - Sale price or offers price
 - When declared surplus
 - Description of property
 - Any issues regarding sale
 - Offers made (if appropriate)
 - Expected completion date
- The report as of 31 March 2014 highlighted 22 properties which were available for sale or being prepared for marketing out of a total of 99 properties included in the Asset register in respect of Corporate Surplus Assets and Assets Held for Sale. This report is updated on a monthly basis and presented to Customer Services Departmental meeting and the minutes are forwarded to the Chief Executive.
- The remaining 77 properties are comprised of properties that are designated under the financial category Corporate surplus assets and are not necessarily assets that the Council have available for disposal. Reasons for this can be surplus properties which are currently leased /rented to external parties. Properties which are mothballed but not available for sale and properties which are subject to future redevelopment/regeneration. Current practice is to report on those properties either currently being prepared for market or being actively marketed to the customer services DMT with additional reporting on assets through the SAMP process. However this does not cover the status of all properties.
- It was evidenced that partial reporting of the Corporate Surplus Assets exists via the Service Asset Management Plan (SAMP), however it was noted that this did not include all of the properties and did not refer to current status in all cases.

- Procedures stipulate that a report should be submitted to the appropriate area committee detailing any offers made and any relevant comments associated with the marketing of the property. A review of the files evidenced reports had been submitted to area committees detailing the relevant information.
- A review of the Council website showed that properties being marketed by external agents are not listed. Furthermore it was noted that properties under offer have been so for an extended period of time, in one particular example in excess of 5 years.

6. CONCLUSION

This audit has provided a Limited level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were 3 high and 4 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There is 1 low recommendation which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Estates staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1

ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|--|--------------------------------------|------------------------------------|--|---|
| 1. Procedures | | High/ Medium or Low | | |
| <p>Procedure Guidance Procedures for Disposal of Council assets have not been updated in approximately 8 years.</p> | <p>Assurance level is undermined</p> | <p>High</p> | <p>Procedures to be reviewed and updated</p> | <p>Asset Manager 31st March 2015</p> |
| 2. Procedures | | High/ Medium or Low | | |
| <p>Asset Disposal The timeline in securing title deeds was on average completed within a 2/3 month period. However it was noted that this period can be longer due to complexities and extenuating circumstances.</p> | <p>Assurance level is undermined</p> | <p>Medium</p> | <p>Monthly review meeting with Governance and Law to discuss outstanding issues</p> | <p>Asset Manager 31st March 2015</p> |

| 3. Procedures | | High/ Medium or Low | | |
|--|---|------------------------------------|--|--|
| Audit Scotland Report It was noted in Audit Scotland's (External Auditors) report to those charged with Governance on the 2013/14 audit that a recommendation that members are advised of both the marketing valuation and the Asset Register value for assets when they are evaluating offer bids | Failure to action external audit recommendations | Medium | Procedures to be reviewed and updated | Asset Manager 31st March 2015 |
| 4. Marketing | | High/ Medium or Low | | |
| It is recommended a minimum marketing period should set out in procedures in order to ensure best consideration as stipulated in Local Government (Scotland) Act 1973. | Failure to achieve best consideration | High | Procedures to stipulate minimum period. | Asset Manager 31st March 2015 |
| 5. Asset Register | | | | High/ Medium or Low |
| Disposals: A review of the information held in the Asset register highlighted discrepancies namely 3 properties which were no longer assets of the Council. | Failure to update update asset register results in mis representation | High | A reconciliation will be carried out between information held by estates and Finance to ensure that the register is accurate. | Finance Manager Corporate Support Estates Manager 31 March 2015 |

| 6. Reporting | | | | High/ Medium or Low |
|---|--|--------|--|---|
| It was evidenced that partial reporting of the Corporate Surplus Assets exists via the Service Asset Management Plan (SAMP), however it was noted that this did not include all of the properties and did not refer to current status in all cases. | Failure to provide information can lead to ineffective decision making | Medium | Report to be prepared | Asset Manager 31st March 2015 |
| 7. Council Website | | | | High/ Medium or Low |
| A review of the Council website showed that properties being marketed by external agents are not listed. | Failure to maximise marketing potential | Medium | Website to be updated with external link to agents and once available the SFT e-pims marketing platform | Asset Manager 31st March 2015 |

APPENDIX 2

ACTION PLAN

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|-------------------------------|------------------------------------|---|---|
| 1. Reporting | | High/ Medium or Low | | |
| Procedures stipulate that a marketing timetable should be forwarded to local members. No evidence of this could be found in the files reviewed. | Assurance level is undermined | Low | Procedures to be revised and updated arrangements to be put in place | Asset Manager 31st March 2015 |

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