Internal Audit

Final Report

Environment and Regeneration Services & Strategic Finance:

Asset Management (Key Control Review)

AUDITOR
AUDIT MANAGER

May 2014

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Final Report to:	Executive Director, Finance Service Director, Environmental and Regeneration Services Service Director, Strategic Finance Head of Property Head of Accountancy and Management Assurance Senior Valuer Senior Accountant

EXECUTIVE SUMMARY

OVERVIEW

The Internal Audit Review of Asset Management has been carried out in accordance with the Internal Audit Plan for 2013/14. This Key Control Review represents a high level review to provide assurance that the key controls are operating effectively.

The Asset Management function ensures that the Council's fixed assets are correctly valued and recorded in its accounts in accordance with the International Financial Reporting Standards. At the commencement of the audit the most recent completed Asset Register was 2012/13 and this was the Asset Register audited.

The main areas reviewed by the audit were:

- Key Controls are appropriate and operating effectively
- Significant changes in system administration or service provision have been documented and any impact to the control framework accounted for.

No recommendations were made by the previous audit undertaken in September 2011.

This report provides Management with a summary of the audit findings from this review. Assurance is given in respect of each of the expected key controls in place to confirm whether associated risks are being managed adequately and appropriately.

Due reference was given throughout the audit to the possible risks of fraud and corruption that could occur within this service area.

We would like to thank all staff for their assistance and co-operation throughout the course of this audit.

SUMMARY OF SIGNIFICANT RISKS

The risks to the delivery of the service's objectives as a result of the key controls not operating effectively were identified at the outset of the audit.

The following table records the inherent risk (the risk of exposure with no controls in place) captured prior to the commencement of the audit. The second column of the table is the Auditor's assessment of the risk exposure at corporate level after the key controls have been tested.

Areas identified as significant corporate risks (ie those assessed as high risk areas) should be addressed as a matter of urgency.

Risks	Inherent Risk Assessment	Auditor's Assessment
1. The asset records are inaccurate	High	Low
2. Changes to assets are not recorded	High	Low
3. Assets are not valued correctly	High	Low
4. The assets recorded in the final accounts are not accurate	High	Low

SUMMARY OF SIGNIFICANT FINDINGS

The review concluded that controls and procedures in operation were sound with no improvements to controls being identified as necessary.

CONCLUSION AND AUDIT OPINION

The Internal Audit opinion for Asset Management is Good and we can provide **Substantial Assurance** to Management on the effectiveness of the controls. This means that there is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.

All audit conclusions will be signed off by the Chief Internal Auditor to provide consistency and confirm that the opinion is appropriate given the issues identified in the audit.

AUDIT SCOPE AND OBJECTIVES

AUDIT SCOPE

This audit has been undertaken as part of a risk based Internal Audit plan. This means that:

- The objectives and risks have been communicated to managers prior to the start of the audit.
- The controls established to manage risks have been discussed with key staff and relevant documentation reviewed.
- The controls have been established through discussions and sample testing to assess their operation.
- At the end of the audit review, findings have been discussed with managers at a close out meeting and suggestions for improvement have been agreed.

CONTROL OBJECTIVES

The objectives of the audit are to seek assurance that controls and procedures put in place by managers are effective and ensure that:

- All Land and Property Assets are identified and recorded.
- Valuations are made in accordance with Accounting Standards.
- The accounts accurately reflect the value of identified assets.

AUDIT FINDINGS

RISK 1: The asset records are inaccurate

1.1 Recording of Assets

1.1.1 Accountancy maintains an Asset Register which was found to contain details of all the expected asset types. The Register also included Council Assets being used by third parties such as BH Live.

1.1.2 Asset owners are contacted annually prior to the end of the financial year and asked to confirm their assets are still held and have not suffered impairment.

1.2 Reconciliation of Property Terrier to Corroborating Information

1.2.1 Whilst there is no annual reconciliation between the Property Terrier and the Atrium Building Maintenance Systems, Atrium does use the Property Terrier Asset Number and Building Maintenance are informed of all changes to the Terrier. The Partnership Facilities Management Client Manager advised that there were plans to introduce a new system that would be used for recording assets, building maintenance and insurance details and that with the introduction of this new system, there will be no need for reconciliations.

1.2.2 In the meantime the Partnership Facilities Management Client Manager considered that because of the effective working relationship developed with the Property Records Officer, who maintains the Property Terrier, the Property Terrier would include all Council owned buildings being maintained.

1.3 Reconciliation of Property Terrier to Asset Register

1.3.1 The Property Terrier is reconciled to the Asset Register annually by the Senior Accountant. Audit testing established that the 2012/13 Asset Register, had been satisfactorily reconciled to the Property Terrier.

RISK 2: Changes to assets are not recorded

2.1 Capital Expenditure is Authorised

2.1.1 It was confirmed with the Senior Accountant that authorisation is required from the Gateway Board or Cabinet for all Capital Expenditure.

2.2 Capital Expenditure is correctly coded on the Financial System

2.2.1 The Senior Accountant confirmed that a unique set of codes is used for the recording of capital expenditure in the Financial System. Testing was carried out to confirm that assets had been correctly coded on the financial system. No issues were identified and the system is operating satisfactorily.

2.3 The Asset Register Reflects Capital Expenditure

2.3.1 The audit confirmed that Capital Programme expenditure is being included in the Asset Register appropriately.

2.3.2 A sample of 5 additions to the 2012/13 Asset Register were reviewed to confirm there was adequate supporting evidence. The system in place is operating satisfactory

RISK 3: Assets are not valued correctly

3.1 Assets are Correctly Valued

3.1.1 It was confirmed that assets were valued, on a 5 yearly cycle, in accordance with the guidance from the Royal Institute of Chartered Surveyors and the Chartered Institute of Public Finance and Accountancy.

3.2 Asset Values are Changed in Accordance with Market Forces or Capital Additions

3.2.1 Assets of a similar type are generally all valued at the same time within the 5 year cycle, thus ensuring consistency of valuation. The main exception to this is schools, these have not been valued in the same year due to their number, the complicated nature of the valuation process and there being limited valuation resources. Following revised guidance from External Audit changes to the valuation process for the 2014/15 Asset Register are to be made to ensure that they comply with the Guidance. No recommendation is considered necessary because the revised guidance had not been received when the 2012/13 Asset Register was reviewed by this audit and because action is already being undertaken to ensure compliance with the new guidance.

Where the valuation of one type of asset indicates that a revaluation of another type is required, which is not planned to be undertaken in the relevant financial year, then additional valuations are arranged.

3.2.2 Close liaison between the Senior Accountant and the Senior Valuer ensures that assets subject to capital expenditure are revalued in addition to those assets scheduled for revaluation that year. Revaluations of assets subject to major works have been carried out at the completion of the works. However, following the recent receipt of revised guidance from External Audit that interim revaluations may be required prior to the completion of major works. Changes to the valuation process for the 2014/15 Asset Register are to be made to ensure that they comply with External Audit’s Guidance. No recommendation is considered necessary because the revised guidance had not been received when the 2012/13 Asset Register was reviewed by this audit and because action is already being undertaken to ensure compliance with the new guidance.

3.3 Assets are Depreciated in Accordance with their Anticipated Remaining Lives

3.3.1 The depreciation treatment of a sample of assets and sub-assets was reviewed and they were found to have been depreciated appropriately in accordance with their asset type and remaining useful life.

RISK 4: The assets recorded in the final accounts are not accurate.

4.1 The Asset Register is Reconciled to the Financial System

4.1.1 Audit testing confirmed that the 2012/13 Asset Register had been satisfactorily balanced to the Financial System.

4.2 Assets are Correctly Brought Forward In the Asset Register

4.2.1 It was confirmed with the Senior Accountant that a reconciliation was carried out to ensure that assets had been brought forward correctly in the 2012/13 Asset Register from the previous year.

EXPLANATION OF AUDIT OPINION AND RECOMMENDATION PRIORITY

Audit Opinion

Good - Substantial Assurance	There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.
Satisfactory - Reasonable Assurance	Whilst there is a basically sound system of control, there are weaknesses which may put some service objectives at risk.
Weak - Limited Assurance	There are weaknesses in the system of control which put service objectives at risk.
Poor - Minimal Assurance	The system of control is generally weak as such service objectives are at significant risk.

Recommendation Priority

1. High Priority:

High priority recommendations identify control weaknesses or other issues which have serious implications for the effective delivery of service objectives which must be addressed by management promptly. Regular management monitoring of the effectiveness of the actions agreed is essential.

2. Medium Priority:

Medium priority recommendations identify control weaknesses or other issues which have significant implications for the effective delivery of service objectives. Management must put in place the actions agreed within a reasonable timescale and monitor the effectiveness of the actions agreed.

3. Low Priority:

Low priority recommendations identify control weaknesses or other issues which have minor implications for the effective delivery of service objectives. Management should address the weakness or issue identified and review the effectiveness of the actions agreed.