

**Follow-Up
Internal Audit Report
SRBC 20/19-20**

**Review of
Commercial Services
SRBC 07/18-19**

Issued by Janice Bamber
Interim Head of Shared Assurance

Lead Auditor: Struan Jackson

Date: 17th March 2020

| 1 REASONS FOR AUDIT / SCOPE | |
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| 1.1 | Commercial Services has seen significant changes over the last 2 years, resulting in a lack of continuity, resilience and capacity, which has undoubtedly affected the delivery of the service. The review was undertaken at the request of the Deputy Chief Executive to confirm the completeness and accuracy of the Councils Asset Register and to establish whether Commercial Services rental review processes are operating effectively. The review was completed during September 2019 which identified a number of governance and control issues. As a consequence, at that time, Internal Audit could place Limited Assurance rating on the control environment in place and the extent to which risks are mitigated in regard to Asset Management and the administration of Commercial Properties |
| 1.2 | The issue were discussed with the Assistant Director of Property & Housing, who agreed the management actions required to resolve the governance and control issues. |
| 1.3 | This follow up review has been undertaken to provide an update on the current status of the agreed actions. Whilst agreed dates of implementation have not yet been reached the Interim Head of Shared Assurance must provide an opinion on the adequacy of the control environment within this area therefore this follow up review has been undertaken prior to year-end. The follow up review consisted of a desktop review and interview with the Assistant Director of Property & Housing, no detailed testing has been undertaken at this time. |
| 1.4 | Details of the agreed management action and current status of actions as at 11 th March 2020 are included in Management Action plan attached as item 4 of this report. |

| 2 ASSURANCE RATING | |
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| 2.1 | Internal Audit provide an independent and objective opinion on the adequacy of the Council's control environment, in order to do that Internal Audit review and provide an opinion on the level of assurance of the control environment within each area reviewed. The level of assurance is based on the auditor's assessment of the extent to which system objectives are met, the effectiveness of controls operating within systems and the resultant extent to which risks are mitigated. |
| 2.2 | <p>The original review identified a number of significant control weaknesses in the system of control which put at risk the achievement of the system objectives. These weaknesses were particularly evident in respect of the effectiveness of governance arrangements underpinning the process, for example;</p> <ul style="list-style-type: none"> • through the lack of a single complete asset register; • Council owned assets could not be reconciled to the records held by the Land Registry. • inconsistent filing and retention of property management records. • insufficient resources available for the completion of rent reviews and lease renewals. • inconsistent filing and retention of property management records. <p>As a consequence, Internal Audit can place only a Limited Assurance rating on the control environment in place and the extent to which risks are mitigated in regard to Asset Management and the administration of Commercial Properties.</p> |
| 2.3 | Whilst this review acknowledges that considerable work has been undertaken and is currently in progress to address the governance and control weaknesses. Some management actions are yet to be fully completed. Once all actions have been addressed it is expected that the assurance rating will rise to at least an adequate rating. |
| 2.4 | <p>Control Rating Key</p> <p>Full – the Authority can place complete reliance on the controls. No control weaknesses exist.</p> <p>Substantial - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.</p> <p>Adequate - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.</p> <p>Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist</p> |

| 3 Follow Up Review Findings | |
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| 3.1 | <p>Through interview with the Assistant Director of Property & Housing it was confirmed that considerable work has been undertaken to address the governance and control weaknesses, this includes:</p> <ul style="list-style-type: none"> • Establishing the CAPS IDOX system as the primary property records management system. • The CAPS IDOX system will shortly be upgraded to include document imaging. All property records are to be scanned and indexed. • Approximately 85% of lease records have now been recorded on the CAPS IDOX system. |

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| | <ul style="list-style-type: none"> • An IDOX Project working group has been established, whose membership includes representatives from the Estates team, who will ensure that the requirements of the Estates team are incorporated within the system upgrade • Stock condition survey will shortly be undertaken, following this, a 30 year investment and maintenance programme will be developed. • Sanderson Weatherall have been commissioned to complete an asset review of the Commercial properties, on completion the findings from the review will be presented to Cabinet. • The council's property assets insurance values have recently been reviewed, there has been a net increase of approximately £2m. This will have an impact on the insurance premiums payable by the Council. <p>Following successful recruitment exercise, the following posts have been appointed to</p> <ul style="list-style-type: none"> • Technical Support Assistant • RICS qualified Surveyor <p>During October 2019 an interim Surveyor, the officer is currently dealing with the backlog of rent and ground lease renewals, rent arrears and lease renewals</p> |
| 3.2 | <p>Currently the reconciliation of the council's property assets to the Land Registry records has not been completed. Sanderson Weatherall have been commissioned to complete a review of the Commercial properties, following this, a reconciliation exercise to ensure the accuracy of the council's asset register will be completed.</p> |
| 3.3 | <p>At the time of the follow up being completed, the Interim Surveyor was working through the backlog of work including rent and ground lease renewals, rent arrears, lease renewals. However, the then Assistant Director of Property & Housing confirmed that consideration is being given to putting on hold the lease and rent reviews. As it is believed that from undertaking this exercise rent and lease charges will be raised, which is at odds with trying to support small businesses and sole traders at this time of unprecedented financial strain. The Cabinet Member for Finance, Property and Assets will be briefed a monthly basis ensuring that this is kept under review.</p> |

4. Management Action Plan

| NO. | CONTROL ISSUES / RISK | PROPOSED MANAGEMENT ACTIONS | AGREED ACTIONS | OFFICER & DATE | Current Status March 2020 | Revised Date |
|-----|---|--|----------------|--|---|-------------------|
| 1 | <p>Internal Audit are unable to verify the accuracy of the Council's Asset Register. Property records are held on both the IDOX CAPS System and on separate Spreadsheets, thereby duplicating some property information, leading to confusion as to which data set is the primary source.</p> <p>There is a risk of incomplete and inaccurate asset records, thereby leading to a misstatement of the accounts.</p> | <p>The Assistant Director of Property & Housing should:</p> <ul style="list-style-type: none"> • Ensure that the responsibility for the maintenance of the asset register is resolved; • Determine the prime record keeping system, if that is determined to be the CAPS system this should be brought up to date and maintained as the prime record for the Council, ensuring that the Asset Register is accurate and complete. <p>Note There is a cost of obtaining full land and property records from the Land Registry, this is approximately £7-£10 per asset, based on this, the estimated cost would be around £3,200 - £4600.</p> | Agreed | Assistant Director of Property & Housing 31.03.2020 | <p>Partly completed</p> <p>The reconciliation between the Council's Asset register and the Land Registry has been delayed until the asset review by Sanderson Weatherall, to be completed.</p> | 31/11/2020 |
| 2 | <p>Due to the lack of capacity and knowledge, there are concerns that rent reviews and lease renewal processes are not operating as intended and contravene legislative requirements. This poses both a legislative and financial risk to the Council</p> | <p>The Assistant Director of Property & Housing:</p> <ul style="list-style-type: none"> • should ensure that a review of resources is undertaken in order to provide assurance that sufficient capacity is available within the service to undertake the functions required; and • the lease renewal and rent review processes must be reinstated; lease holder accounts should then be updated. | Agreed | Assistant Director of Property & Housing 31.03.2020 | <p>Partly completed.</p> <p>Following a successful recruitment exercise, key posts have been recruited to and staff appointed.</p> <p>The Interim Surveyor is currently working through the backlog of work including rent and ground lease renewals, rent arrears, lease renewals. However, due to the current unprecedented situation, the rent and lease reviews may be placed on hold. The Cabinet Member will receive monthly updates.</p> | 31/11/2020 |