

Joint Audit and Governance Committee

Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

DATE: 14 October 2019

Internal audit activity report quarter two 2019/2020

Recommendation

That members note the content of the report

Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity at both councils for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is Victoria Dorman-Smith, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

Background

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the council's objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

Full assurance: There is a good system of internal control designed to meet the system objectives and the controls are being consistently applied.

Substantial assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being applied.

Satisfactory assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

2019/2020 Audit Reports

7. As at 30 September 2019, since the last audit and governance committee meeting the following audits and follow up reviews have been completed:

Completed Audits: 5

Full Assurance: 1

Substantial Assurance: 0

Satisfactory Assurance: 3

Limited Assurance: 1

Nil Assurance: 0

	Assurance Rating	Total Recs	High Risk	No. Agreed	Medium Risk	No. Agreed	Low Risk	No. Agreed
Joint								
Property Management 18/19	Limited	6	2	2	1	1	3	3
Budgetary Control 19/20	Satisfactory	3	0	0	2	2	1	1
Development Management 19/20	Satisfactory	8	0	0	4	4	4	4
Mobile Home Parks 19/20	Satisfactory	10	0	0	4	4	6	6
Disabled Facility Grants 19/20	Full	1	0	0	0	0	1	1
SODC								
None								
VWHDC								
None								

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing	No longer applicable
Joint							
Discretionary Grants 18/19	Satisfactory	9	4	1	4	0	0
Street Naming and Numbering 18/19	Satisfactory	7	4	0	3	0	0
SODC							
None							
VWHDC							
None							

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.
9. Members of the committee are asked to seek assurance from the internal audit reports and/or respective managers that the agreed actions have been or will be undertaken where necessary.
10. A copy of each report has been sent to the appropriate service manager, the section 151 officer and the relevant member portfolio holder. In addition, reports are now published on the councils' intranet and limited assurance reports are reviewed by the strategic management team.

11. Internal audit continues to carry out a six month follow up on all non-key financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Financial Implications

12. There are no financial implications attached to this report.

Legal Implications

13. None.

Risks

14. Identification of risk is an integral part of all audits.

VICTORIA DORMAN-SMITH
INTERNAL AUDIT MANAGER

Property Management 2018/2019

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to property management. The audit has been undertaken in accordance with the 2018/2019 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC). The audit has a priority score of 18. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- clear policies and procedures are in place regarding the management of properties;
 - the rents are set with reference to market rates (or as otherwise governed by the lease) and are subject to review on a regular basis and in line with the rent review provisions of the lease;
 - the properties are correctly valued for accounting and insurance purposes and that the valuations are kept up-to-date;
 - there is appropriate authorisation in place for additions, disposals, write offs and depreciation of properties, and the property asset register is updated accordingly;
 - the property asset register differentiates the responsibility for maintaining areas of each property; and
 - adequate contract management arrangements are in place and management reporting is sufficient.

2. BACKGROUND

- 2.1 Arcadis previously managed the councils' properties as part of the five councils' partnership (5CP), which began on 1 August 2016. The property management contract was between the councils and Vinci, with Vinci sub-contracting out the management and running of the properties to Arcadis.
- 2.2 As of 1 April 2018, property services was brought back in-house, resulting in a period of change and disruption to the service. Managers have been focused on the immediate issues which were inherited when the service was brought back in-house in addition to recruiting an appropriately skilled team. There was a delay in appointing a property manager (appointed January 2019) and recruitment of vacant posts within the property services team is ongoing. SMT are already aware of the opportunities for improvement within the property services area.
- 2.3 It is noted that the Concerto system is used to record and manage the councils' properties, which include the following property types:
- civic estates;
 - car parks;
 - leisure and community centres;
 - housing, including mobile home parks;
 - parks, cemeteries, allotments and open spaces;
 - public conveniences;
 - investment properties; and
 - commercial leases, utilities and service charges.

- 2.4 The following activities are performed by property services: **Agenda Item 13**
- planned preventative maintenance (PPM);
 - reactive maintenance;
 - surveys, valuations and inspections; and
 - disposal of surplus and vacant buildings.

3. PREVIOUS AUDIT REPORTS

- 3.1 Property management was last subject to an internal audit review in October 2017 and five recommendations were raised. Five recommendations were agreed and a limited assurance opinion was issued.
- 3.2 All five recommendations have not been implemented and have been restated as part of this review (Recs 1-5).

4. 2018/2019 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Six recommendations have been raised in this review. Two high risk, one medium risk and three low risk.

5. MAIN FINDINGS

5.1 Policies and procedures

- 5.1.1 Prior to 1 April 2018, Arcadis developed a 5CP corporate services process handbook for property management, which set out processes and procedures for managing assets and property portfolios, along with assigning roles and responsibilities. Since property services was brought back in-house, development of council policies and procedures for property management has not been completed. It is recommended that development of formal policies and procedures is added to the property services action plan, as noted in section 5.7.2 below.
- 5.1.2 Area assurance: Limited
One recommendation has been made as a result of our work in this area (Rec 6).

5.2 Property rents

- 5.2.1 Property services are in the process of reviewing information held within Concerto to ensure it is complete and accurate. Following this review, a reconciliation of Concerto information to both rental properties that are invoiced and the fixed asset register can be undertaken. At the time of the audit (March 2019), SODC and VWHDC subscription lists for commercial rents had been reviewed and updated; however, the lists exclude properties where rents are geared to business turnover (i.e. turnover rents), which account for less than 5% of commercial rents.
- 5.2.2 Tenants pay their rent periodically, i.e. annually, half yearly, quarterly or monthly, which is stated on the lease agreement with the councils. The frequency of reviewing the rent varies from one property to the next and the frequency is included in the lease agreement with the tenant. Since 1 April 2018, there have been no regular rent reviews and a schedule for rent reviews is not entered onto Concerto. Regular reviews of rents charged against lease information is required to identify

and resolve variances. The property services action plan includes **Agenda Item 13** establish a rent review schedule, as noted in section 5.7.7.

5.2.3 Area assurance: Limited

Two previous recommendations have been restated as a result of our work in this area (Recs 1 and 2).

5.3 Property valuations

5.3.1 There are two types of property valuations undertaken, accounting valuation and insurance valuation. Accounting valuation is to establish the value of the property for balance sheet purposes, while insurance valuation is to establish the value to rebuild the property. Internal audit were informed that recent work undertaken by the property team has identified issues with the annual valuation framework, which at the time of the audit (June 2019) were being investigated in collaboration with Finance. The service specification states that both valuations will be undertaken on a five-year cycle, however the risk and insurance officer stated that a verbal agreement is in place for insurance valuations to be undertaken on a three-year cycle. The five-year schedule for accounting valuations is split into the following categories:

- year one (2016/2017) - car parks;
- year two (2017/2018) - leisure centres, parks, cemeteries, allotments and open spaces;
- year three (2018/2019) - public convenience, civic estates and housing (including mobile homes park);
- year four (2019/2020) - investment properties and long leases;
- year five (2020/2021) - TNRP (ex. investments and long leases), community centres and surplus/vacant sites.

5.3.2 Insurance valuations must be carried out every three years, with revaluation of the highest value properties performed annually. It is the responsibility of property services to ensure that insurance valuations are performed annually on a rolling basis over a five-year period. There have not been any revaluations of the highest value properties during 2018/2019 financial year that could be used for insurance purposes. Property team have identified the need to scope out the required insurance valuation work.

5.3.3 Area assurance: Satisfactory

Two previous recommendations have been restated as a result of our work in this area (Recs 3 and 4).

5.4 Property asset register

5.4.1 As of 1 April 2018, the councils' property services team maintains the property register on the Concerto system (previously outsourced to Arcadis), while the accountancy team (Capita) continues to maintain the fixed asset registers. The property valuations are recorded on the fixed asset registers and the net book value at the end of each financial year is adjusted to allow for additions, disposals, depreciation and revaluation. Review of the SODC and VWHDC property and fixed asset registers confirmed that they comply with the requirements of the councils' financial procedure rules and CIPFA guidelines.

5.4.2 A review of property ownership details against both land registry and terrier records was performed for VWHDC in April 2019; however, Concerto records have not been updated to ensure that the correct leases are uploaded. It is recommended that a review of the property register on Concerto is undertaken for SODC and VWHDC to

ensure the data is complete and accurate, which is incorporated in the property services action plan, as noted in section 5.7.3 below.

- 5.4.3 The accountancy team (Capita) maintains the fixed asset registers on spreadsheets for accounting purposes, while the property services team maintain the main asset register (Concerto), which lists all physical assets owned by both councils. Review of both sets of asset registers found there is adequate information that allows them to be reconciled, i.e. both state the same asset ID number. However, as noted in the previous audit, a regular reconciliation between the asset registers is currently not being undertaken.
- 5.4.4 Area assurance: Substantial
One previous recommendation has been restated as a result of our work in this area (Rec 5).
- 5.5 **Property maintenance**
- 5.5.1 The lease agreements between the council and tenant(s) state the responsibility for property maintenance. The responsibilities are entered onto Concerto within the lease details section. Since property services was brought back in-house, a review of supplier contracts has been initiated and a procurement of planned preventative maintenance contracts, to provide 24-hour reactive maintenance for council properties is in progress. Development of a procurement framework is included in the property services action plan, as noted in section 5.7.5 below.
- 5.5.2 Area assurance: Full
No recommendations have been made as a result of our work in this area.
- 5.6 **Property services action plan**
- 5.6.1 Since property services was brought back in-house, a property services action plan has been developed to address the key priorities for the service. The action plan includes the following sections:
- a) record the issues;
 - b) collect and analyse data;
 - c) clarify and prioritise the problems;
 - d) goal statements; and
 - e) implement solutions (including resources needed and potential barriers).
- 5.6.2 Part c, 'clarify and prioritise the problems', of the action plan, outlines the following seven key priorities:
- 1) **property ownership:** confirm the property ownerships and liabilities of the two councils;
 - 2) **safe buildings:** achieve compliance to statutory regulations;
 - 3) **procurement frameworks:** establish procurement frameworks to provide the required services;
 - 4) **service team:** recruit for vacant posts to ensure the team has capacity to fulfil its responsibilities;
 - 5) **review of records:** review and identify business critical records for the delivery of services;
 - 6) **tracking of caseloads:** identify key performance metrics to plan workloads; and
 - 7) **fit to corporate mission:** develop a corporate and investment real estate strategy.

Based on our review of the seven key priorities, we noted that it does not include an action to develop key performance targets and an internal service level agreement (SLA) for monitoring the effectiveness of the service. The draft action plan includes implementation dates for several key priorities; however, it is recommended that implementation dates are formally documented for all priority areas. It is also noted that the action plan does not specify the need to develop formal in-house policies and procedures for property services processes.

5.6.3 1) Property ownership

Confirmation of the property ownerships and liabilities of SODC and VWHDC is required to ensure that income is collected, maintenance activities are regularly performed, and properties are safe.

5.6.4 2) Safe buildings

One of the highest priorities is to ensure that buildings are safe and comply to statutory regulations. In addition, health and safety issues should be identified and resolved promptly to minimise the risk of harm to the public. A maintenance schedule is required to ensure compliance to health and safety regulations, and minimise the amount of unplanned, urgent works.

5.6.5 3) Procurement frameworks

At the time property services was brought back in-house, a number of contracts were novated from Vinci, and some of these have since expired. There is no procurement framework in place for property services; however, development of a dynamic procurement framework has been initiated. A longer-term objective is to have planned and preventative maintenance (PPM) contracts that provide 24-hour reactive maintenance cover.

5.6.6 4) Service team

As of February 2019, there were six vacant posts within property services. Specialist contractors were engaged to backfill a number of vacant posts; however, use of agency staff requires a significant amount of time to train individuals in relation to council systems and practices. Recruitment of vacant posts is ongoing and therefore workloads have been prioritised, which may impact service delivery

5.6.7 5) Review of records

Establishment of a rent review schedule is required to ensure that income is invoiced accurately and collected in a timely manner. If rent reviews are not carried out on the due date this may have an adverse financial impact. In addition, utilities charges should be invoiced accurately and timely to ensure income is collected.

5.6.8 6) Tracking of caseloads

Active maintenance tasks are currently recorded in different places due to different ways of working. The Concerto case management system should be used as the central records repository to adequately assess, prioritise and monitor tasks through to completion.

5.6.9 7) Fit to corporate mission

Development of a corporate strategy for property services is required to establish clearly documented reasons for owning a property, and to establish expectations for each property in relation to physical and cost performance.

5.6.10 Area assurance: Limited

One recommendation has been made as a result of our work in this area (Rec 6).

6. ACKNOWLEDGEMENTS

- 6.1 Internal audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

7. CATEGORISATION OF RECOMMENDATIONS

- 7.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Recs 1 and 6
Medium risk	Other control weakness for local management action	Rec 5
Low risk	Recommended best practice to improve overall control	Recs 2 – 4

OBSERVATIONS AND RECOMMENDATIONS

PREVIOUS RECOMMENDATIONS RESTATED

1. Periodic invoicing review (*Action plan number 5*)

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The periodic invoice spreadsheet also known as the subscription list is regularly reviewed, correct and agrees to the amount rental amount on the Concerto system and that the tenants are invoiced the appropriate rental amount for the property they lease.</p> <p><u>Findings</u> The periodic invoice spreadsheet, which is sent to exchequer services, is not reviewed against the Concerto system on a regular basis.</p> <p><u>Risk</u> If the periodic invoice spreadsheet is not regularly reviewed, there is a risk of tenants being invoiced incorrectly resulting in a financial risk to the councils.</p>	A regular review should be undertaken on the periodic invoice spreadsheet to ensure that all rent amounts agree to the amount on the Concerto system.	Property Manager
Management Response		Implementation Due Date
<p>Recommendation is Agreed in Principle The subscriptions list has been reviewed, but a deeper dive is required as records are cleaned and checked and anomalies resolved. This will be an ongoing iterative process. This is separate from any rent calculation disputes that may occur.</p> <p>Management response: Property Manager</p>		31 December 2019

2. Rent review notifications (*Action plan number 5*)

(Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u>	Rent review notifications are issued prior to the rent review due date, so	Property Manager

<p>Rent review notifications are issued prior to the rent review due date allowing sufficient time to invoice for revised rents.</p> <p><u>Findings</u> Review of 17 (14 SODC and three VWHDC) leased properties in 2016/2017 found that for seven properties notification of rent review was issued after the rent review due date, as stated on the lease agreement.</p> <p><u>Risk</u> If rent review notifications are not issued prior to the review due date, there is a financial risk to the councils as there is a delay in any increase in rental income being received.</p>	<p>that delays are kept to a minimum due to negotiations with tenants.</p>	<p>Agenda Item 13</p>
<p>Management Response</p>		<p>Implementation Due Date</p>
<p>Recommendation is Agreed in Principle Concerto records are incomplete and do not hold verified data on the rent reviews and therefore staff need to review individual leases manually and then enter this detail. This date is for the review of the files and the updating of the records. The actual rent reviews themselves will take some time thereafter to complete, dependent on the case load, complexity and contentiousness of the rent reviews. Where there is potential for rent reviews to be backdated this will be sought. This is a significant project and the verification work on this supports recommendations 1, 4 and 5 and is part of the work envisaged by recommendation 6.</p> <p>Management response: Property Manager</p>		<p>31 March 2020</p>

3. Insurance valuations (*Action plan number 1*)

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Property insurance valuations are undertaken every three years, with the highest value properties revalued annually.</p> <p><u>Findings</u> It is the responsibility of property services to ensure that insurance valuations are performed annually on a rolling basis over a five-year period. There had not been any revaluations of the highest value properties during the 2018/2019 financial year that could be used for insurance purposes.</p> <p><u>Risk</u> If insurance valuations are not carried out for the highest value properties in a timely manner, there is a risk that the councils' insurance cover is insufficient, which may result in adverse financial impact.</p>	<p>a) The councils should establish any additional costs the valuers will charge for undertaking insurance property valuations on a more frequent basis, every three years.</p> <p>b) A formal agreement should be put in place between the councils and the valuers, if all parties agree to undertake insurance valuation on a three-yearly basis.</p>	<p>Property Manager</p>
<p>Management Response</p>		<p>Implementation Due Date</p>
<p>Recommendation is Agreed in Principle The scale of the insurance valuations is much larger than originally anticipated. Market testing has received an estimated cost twice that of the cost of the annual valuation. An internal agreement needs to be reached on how to proceed. This date is dependent on having an Estates Service Procurement Appointment under CCS in place or an equivalent.</p> <p>Management response: Property Manager</p>		<p>31 December 2019</p>

4. Splitting of assets (Action plan number 5)

Agenda Item 13
(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The properties on the fixed asset register are split as stated in the valuation report and the property register (Concerto).</p> <p><u>Findings</u> Review of 35 (21 SODC car parks and 14 VWHDC car parks) property valuations undertaken in 2016/2017 found that:</p> <ul style="list-style-type: none"> for one SODC car park (Cattle market, Thame), the value on the fixed asset register was greater than the value on the valuation report by £400,000.00. This is due to historically the car park and the actual cattle market building were valued as one asset, and the estates team (Arcadis) requested that the car park is valued separately. This is currently classed as one on the fixed asset register and requires to be split. two VWHDC car parks (Cattle market, Abingdon and Civic, Abingdon) are shown as one car park (Civic, Abingdon) on the fixed asset register, which requires to be split. <p><u>Risk</u> If property assets are merged on the fixed asset register, there is a risk of the valuation amount on the register being incorrect resulting in inaccuracy to the councils' balance sheet.</p>	<p>The fixed asset register should be reviewed against the property register, Concerto, and assets are split accordingly to ensure that both registers agree.</p>	<p>Property Manager</p>
<p>Management Responses</p>		<p>Implementation Due Date</p>
<p>Recommendation is Agreed in Principle Work has commenced, which has identified a large number of items, accuracy information and identification of assets. The team member who was working on this has left and new staff need to be onboarded, then a review of the estate portfolio and work with Finance will be required. The review process also needs to consider any CIPFA property coding implications at the same time.</p> <p>Management response: Property Manager</p>		<p>31 January 2020</p>

5. Property asset registers reconciliation (Action plan numbers 1 and 5)

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The property assets on the fixed asset register are reconciled to the property register (Concerto) on a regular basis.</p> <p><u>Findings</u> Whilst it is noted that the fixed asset register only includes land and properties with a value and the property register includes all land and properties owned by the councils, a reconciliation between the fixed asset register and the property register (Concerto) is not undertaken.</p> <p><u>Risk</u></p>	<p>A reconciliation should be undertaken between the accountancy (Capita) managed fixed asset register and the property register, held on the Concerto system, to confirm that the valued land and properties agree on both registers.</p>	<p>Property Manager</p>

If a reconciliation is not undertaken between the property register (Concerto) and the fixed asset register, there is a risk of one or both registers being inaccurate resulting in errors to the balance sheet.	Agenda Item 13
Management Response	Implementation Due Date
<p>Recommendation is Agreed in Principle</p> <p>An initial reconciliation has been carried out, which has highlighted issues. Completion statements will be a critical document for estates and finance to review when carrying out the reconciliation. Work in recommendations 1 to 4 above are pre-requisites of this workstream.</p> <p>Management response: Property Manager</p>	31 March 2020

PROPERTY SERVICES ACTION PLAN

6. Key priorities

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> An approved action plan to address key risks and priorities within the service area is in place.</p> <p><u>Findings</u> A draft property services action plan is in place; however, implementation tasks required to improve the service have not been included.</p> <p>In addition, it was noted that in-house policies and procedures for property service processes are not in place and development of in-house policies and procedures is not included as a key priority in the draft action plan.</p> <p>Finally, at the time of our review (March 2019) the action plan did not include an action to develop an in-house service level agreement (SLA) and key performance indicators (KPIs).</p> <p><u>Risk</u> If the action plan is not finalised, approved, and communicated to relevant officers, there is a risk that completion of actions may be delayed.</p> <p>Lack of in-house policies and procedures may result in inappropriate practices and lack of accountability.</p> <p>Without the development of performance metrics, adequate monitoring of the service cannot be performed.</p>	<p>a) Update the draft action plan to include the following actions:</p> <ul style="list-style-type: none"> • Develop in-house policies and procedures; • Establish a service level agreement (SLA); and • Develop key performance indicators. <p>b) Finalise the property services action plan and obtain necessary approval.</p>	Property Manager
Management Response		Implementation Due Date
<p>Recommendation is Agreed</p> <p>Completion of this recommendation is dependent upon a stable operating environment.</p> <p>Management response: Property Manager</p>		<p>a) 31 December 2019</p> <p>b) 31 March 2020</p>