

Argyll and Bute Council

Internal Audit Report

May 2019

FINAL

# Land and Asset Disposals

Audit Opinion: **Reasonable**

	High	Medium	Low
Number of Findings	0	1	1

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# 1. Executive Summary

## Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Land and Asset Disposal.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

## Background

4. Property Development and Estates (Estates) traditionally operated as an 'in-house service provider' to the Council's operational departments managing the Council's land and property assets.
5. Estates previously sat within Facility Services but in 2016 became part of the Special Projects Team. As part of the Council's ambition to be more commercially aware regarding asset management Estates are looking to:
  - streamline asset management processes
  - maximise income through
    - through rent reviews
    - sale or lease of surplus land and property
    - in-house estate agency and marketing
  - reduce expenditure on outsourcing asset valuations, one-off valuations and surveys by delivering the service in-house
  - identify, purchase and develop commercial opportunities on land owned by external parties.
6. Land and property assets are presently held by individual services which has resulted in a number of properties being accrued and not necessarily used for operational purposes. Estates are changing the Council's approach to property and land asset management and creating a 'One Council Approach'. Its purpose is to:
  - help focus operational services on 'services not buildings'
  - stimulate commercial opportunities
  - stimulate transfers to third sector to generate or save resource
  - provide consistent and informed property management services.
7. Strategic Finance maintain an asset register on a system called AIRS. AIRS holds identification information on Council assets such as asset name and address (if applicable) and financial information such as the asset's net book value, depreciation, valuation basis and history.
8. We audited Land and Asset Disposal in 2014/15 and concluded that only limited assurance could be given over the established risks, controls and governance. The main findings being that the:

- procedures in place did not reflect current practice
- marketing period involved in the selling of a Council asset was, in some cases, excessive
- asset register was not up to date
- information on the Council website on assets available for sale was incomplete.

### Scope

9. The scope of the audit was to:

- review policy and procedures in place and ensure controls relating to asset disposal are appropriate and working in practice
- ensure surplus assets are correctly accounted for in the general ledger and fixed asset register
- review the findings in the 2014/15 land and assets disposal report and ensure all corrective action taken is still in place (where applicable).

### Risks

10. The risks considered throughout the audit were:

- **Audit Risk 1:** disposals do not comply with Council procedures
- **Audit Risk 2:** disposals are not correctly accounted for in the Council's general ledger and fixed asset register.
- **Audit Risk 3:** disposals do not achieve best value
- **Audit Risk 4:** reputational damage to Council

### Audit Opinion

11. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
12. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

### Key Findings

13. We have highlighted one medium priority recommendation and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- detailed procedures should be prepared to provide better guidance on the sale or lease of Council assets
  - consideration should be given to reporting to DMT the current status of each surplus asset and any issues which may adversely impact on a timeous sale/lease.

14. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. Objectives and Summary Assessment

15. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

### Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Council has, and is complying with, appropriate policies and procedures for asset disposal	Audit Risk 1 Audit Risk 3 Audit Risk 4	Reasonable	There is a high level workflow and supporting checklists however these do not provide sufficient guidance on the tasks needing to be completed. A report on all surplus assets, detailing the current surplus assets and whether they were available for lease or sale is periodically presented to the Departmental Management Team (DMT). This could be enhanced by detailing the status of each asset and any issues which may adversely impact on a timeous disposal.
2	Ensure that surplus assets are correctly accounted for in the general ledger and fixed asset register	Audit Risk 2	High	Audit Scotland, as the Council's external auditors, provided assurance that, for the financial period 2017/18 surplus assets have been correctly accounted for in the general ledger and fixed asset register.
3	Best consideration is obtained for disposed assets	Audit Risk 3 Audit Risk 4	Reasonable	A DMT report containing relevant information had been prepared for the sale of three of the four assets sampled. There was no evidence of a DMT report for one of the sampled disposals.

16. Further details of our conclusions against each control objective can be found in Section 3 of this report.

## 3. Detailed Findings

### Council has, and is complying with, appropriate policies and procedures for asset disposal

17. Estates have a property team responsible for the sale and marketing of assets. The team consists of four full time surveyors, one part time and a graduate trainee with the full complement only being filled in June 2018. There are currently three surveyors on temporary contracts.
18. A report By Customer Services to Council in April 2019 noted that "The 'One Council' approach was a natural progression in looking at the effective re-structuring of the Estates Team in 2017/18, it having moved from Facility Services to the Special Projects Team. To this extent, the small team has undergone a significant transformation over the past 24 months including the additional £130k staff budgeting for 2018/19 and 2019/20 to recruit three new temporary posts".

19. There is a high level workflow for disposals which is a one page document that sets out the steps required from initially identifying an asset is available for sale or lease to decommissioning the asset. Associated with each task is a responsible officer /department including timelines where appropriate. We confirmed the map covered the principal stages in selling/leasing an asset however it did not detail the working practices of each task. There is also an “Information Gathering Checklist” that details a number of tasks to be carried out during the process and assigns a responsible officer/department. For example it sets out a need to:

- request confirmation of legal title from legal services
- request preparation of title plan
- consult property team re services and security of property
- consider assessment (demolition)
- advise insurance if vacant
- consult with appropriate council department.

20. As noted in paragraph 17, three out of the four surveyors are on temporary contracts and although Estates management have advised that processes have been evolving since new staff came on board in June 2018 a more detailed procedure would provide greater resilience in the event of any staff members leaving. This should incorporate the checklist as well as additional procedures.

#### **Action Plan 1**

21. A random sample of nine properties was selected for audit testing of which four had been sold and four were currently under offer. This sample was used to assess compliance with the current workflow. The conclusions from this testing are set out in paragraphs 22 to 30.

22. The Information Gathering checklist had not been completed for the properties sampled. No issue has been raised in relation to this as the checklist has only recently been introduced so was not available at the time disposal procedures were put in place for the sampled assets. Once the checklist is incorporated into more detailed procedures (as per paragraph 20) Estates should ensure they are applied consistently for all asset disposals.

23. The workflow specifies that a marketing strategy should be prepared and agreed by the executive director of customer services. For one of the sampled disposals a marketing strategy had been prepared, for the remaining eight we were advised that consideration was given as to whether a marketing strategy was required and it was deemed unnecessary. There is no guidance available on the criteria to determine when a formal marketing strategy is required.

#### **Action Plan 1**

24. The Customer Services DMT report of December 2017 in relation to “Oban Car Parks” agreed to progress the project through “the Property Development Working Group (PDWG), including the appointment of specialised / technical advisors or consultants that may be necessary”. This decision was made as the Oban Car Parks was viewed as a complex project that required input from a multi skilled team. Clarity on which projects would be referred to PDWG should be included within procedures.

#### **Action Plan 1**

25. The workflow refers to an indicative valuation being made of the asset prior to marketing. This was carried out where appropriate though the majority of assets were marketed as “an

expression of interest” in order to test the market which is a normal approach for Council assets such as schools, offices and land as there is no comparable valuations available.

26. The workflow refers to communication with legal in regard to assessment of offers and confirmation of title to asset being sold. E-mail communication between Estates and Legal Services confirmed ongoing communication however for three of the assets sold there was no confirmation of legal title. As per paragraph 19 this will be documented via the “Information Gathering Checklist” for all assets sold going forward.
27. A closing date for the disposal of the sampled disposals has been set where appropriate.
28. The workflow requires all disposals be advertised via an appropriate media outlet including the Council website. The Council complied with this for all four sampled assets currently available for sale.
29. Estates have a decommissioning checklist for property assets sold. The checklist had only been completed for one of the three property assets sold however evidence was available to confirm that decommissioning tasks had been completed for the remaining two. This is a minor issue so no audit point has been raised. The decommissioning checklist should be incorporated into the revised procedures recommended at paragraphs 19-20.
30. A report on all surplus assets is presented periodically to the DMT. The report details the assets currently surplus, whether they were available for lease or sale and which officer the asset had been assigned to. Consideration should be given to including the current status of each asset and any issues which may adversely impact on a timeous sale/lease.

## **Action Plan 2**

31. Whilst our audit concluded evidence was available to confirm that key elements of the workflow tasks are being carried out, the lack of detailed procedures means it isn’t possible for us to provide full assurance that the procedures followed are fully robust and comprehensive. This is the primary reason we have reached the overall judgement that ‘reasonable assurance’ can be provided that the established internal controls, governance and the management of risk are broadly reliable. Once detailed procedures have been implemented and been applied to a reasonable body of transactions we will carry out a further audit to assess compliance with them. This is provisionally scheduled for the 2021/22 internal audit plan.
32. Whilst we have raised an issue regarding the need to further improve procedures we recognise that progress has been made since we highlighted this issue in our 2014/15 audit report. Furthermore the service has addressed the other issues highlighted in that report. This provides evidence of improvement in service delivery.

**All surplus assets and asset disposals are correctly accounted for in the general ledger and fixed asset register**

33. Audit Scotland, as the Council’s external auditors, provided assurance that, for the financial period 2017/18:
  - assets within the general ledger and the asset register had been reconciled in full at the year end with no issues arising
  - a sample of assets held at year end was confirmed as being valued in accordance with financial policies
  - a sample of high value disposals was confirmed as being properly accounted for.

34. On the basis of the assurance provide by Audit Scotland no further work was done on this control objective

**Best consideration is obtained for disposed assets**

35. For three of the four assets sold a DMT report had been prepared which confirmed:

- the asset was advertised on the open market and had therefore been sold at market value
- an agreement to proceed with the sale to the designated purchaser
- terms and conditions of sale to be delegated to Executive Director of Customer Services.

36. There was no evidence of a DMT report for one of the sampled disposals where a sale had been completed. Procedures should include information on what information should be included within DMT reports prior to a sale being agreed.

**Action Plan 1**

37. Where appropriate an independent valuation has been obtained in order to obtain a second opinion to that of Council officers. Management have advised that going forward all valuations will be carried out by Council officers, unless a specialised valuation is required, as they now have four professional surveyors in situ.



## Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p><b>Detailed Procedures</b></p> <p>There are no detailed procedures to provide guidance on the sale or lease of Council assets.</p> <p>There is a high level workflow and checklists for 'Information Gathering' and 'Decommissioning' however these do not provide guidance on the detailed tasks needing to be completed. The workflow also provides no clarity over the criteria to determine when:</p> <ul style="list-style-type: none"> <li>• a formal marketing strategy is required</li> <li>• a disposal should be referred to the Property Development Working Group</li> <li>• details of an asset sale should be reported to DMT for approval and what information should be included within the report.</li> </ul>	Procedures may be applied inconsistently and there may be loss of skill and knowledge if staff leave.	Procedures will be reviewed and where appropriate more detailed sub processes will be developed. The intention is to have these drafted by the end of September and they will be tested against live transactions to identify and areas for further development. Final versions will be in place by 31 December.	Property Development Manager  31 December 2019
Low	2	<p><b>DMT Surplus Asset Reports</b></p> <p>A report on all surplus assets is presented periodically to the DMT. The report details the assets currently surplus, whether they were available for lease or sale and which officer the asset had been assigned to. Consideration should be given to including the current status of each asset and any issues which may adversely impact on a timeous sale/lease.</p>	Management may not be informed of issues relating to asset disposals in a timely manner.	A property update list will be provided to DMT on a quarterly basis and will provide project updates.	Property Development Manager  30 September 2019

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
<b>High</b>	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
<b>Medium</b>	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
<b>Low</b>	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
<b>Substantial</b>	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Reasonable</b>	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
<b>Limited</b>	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
<b>No Assurance</b>	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.