

Argyll and Bute Council
Internal Audit Report
June 2021
Final

Land and Asset Disposal

Audit Opinion: High

	High	Medium	Low	VFM
Number of Findings	0	0	1	0

Contents

1. Executive Summary	3
Introduction	3
Background	3
Scope	3
Risks	3
Audit Opinion	4
Recommendations	4
2. Objectives and Summary Assessment	4
3. Detailed Findings	5
Appendix 1 – Action Plan	8
Appendix 2 – Audit Opinion	9

Contact Details

Internal Auditor: **David Sullivan**
 Telephone: **01546 604125**
 e-mail: **david.sullivan@argyll-bute.gov.uk**

www.argyll-bute.gov.uk

1. Executive Summary

Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, 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. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
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. The Council has a significant property portfolio which is primarily used for the delivery of services, to accommodate its own staff and commercial properties which generate an income.
5. Over time due to changes in service priorities, property rationalisation and population distribution some of the properties are no longer required by the Council and are declared as surplus to its requirements. This is particularly relevant at the current time as the Council considers property rationalisation as a consequence of changes to working practices due to the impact of COVID.
6. In 2018/19 we carried out an audit of Land and Asset disposal focused on assessing whether policies and procedures for land and asset disposal were in place and working well. Whilst the overall audit opinion was "reasonable" the report highlighted a need for more detailed procedures and concluded that "once detailed procedures have been implemented and have been applied to a reasonable body of transactions we will carry out a further audit to assess compliance with them".

Scope

7. The scope of the audit was to review policies and procedures in place and ensure controls relating to asset disposal are appropriate and working in practice as outlined in the Terms of Reference agreed with the Head of Commercial Services on 19 April 2021.

Risks

8. The risks considered throughout the audit were:
 - Audit Risk 1: disposals do not comply with Council procedures
 - Audit Risk 2: disposals do not achieve best value
 - Audit Risk 3: status of assets available for lease or sale are not reported to the appropriate body

Audit Opinion

9. 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.
10. Our overall audit opinion for this audit is that we can take a high level of assurance. This means that 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.

Recommendations

11. We have highlighted one low priority recommendation where we believe there is scope to strengthen the control and governance environment. This is summarised below:
 - all fields within the information gathering checklist should be completed or marked as 'not applicable' where appropriate.
12. 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

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
CO1	The Council has appropriate policies and procedures for asset disposal.	Audit Risk 1	High	Estates have a comprehensive procedure that outlines the various processes involved for the sale or lease of surplus assets. Roles and responsibilities are clearly identified.
CO2	The process followed by officers is consistent with the established policies and procedures.	Audit Risk 1 Audit Risk 2	High	The process followed by Estate officers was found to be consistent with the established policies and procedures. A number of fields within the information gathering checklist for assets sampled had not been completed however this is predominantly a housekeeping issue.
CO3	Appropriate arrangements are in place for the monitoring and reporting of assets both held for sale and sold	Audit Risk 1 Audit Risk 2 Audit Risk 3	High	Estate officers prepare appropriate reports for DMT to inform them of the status of asset disposals.

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

3. Detailed Findings

The Council has appropriate policies and procedures for asset disposal

15. Estates have a property team responsible for the sale and marketing of assets. The team consists of a manager, 3.5 FTE estates surveyors, a technician and a clerical assistant. At the time of the 2018/19 audit three surveyors were on temporary contracts however they are now on permanent contracts which provides for greater stability.

16. The 2018/19 audit recommended that more detailed procedures should be prepared that detailed the processes involved in the sale/lease of an asset as previously only a “high” level workflow was available. In response to that Estates have implemented a procedure that outlines the various processes involved for the sale or lease of surplus assets.

17. We reviewed the procedure and concluded it was comprehensive, setting out the various steps involved from the identification of the asset being surplus to its sale or lease. It details:

- confirmation by relevant council officer/DMT/committee the asset is surplus to requirements
- communication, where appropriate, with Community planning partners to ascertain whether they would have an interest in the asset
- comprehensive list of required checks to be carried out prior to marketing the asset
- where appropriate a marketing strategy should be prepared
- closing date and assessment of offers
- evaluation of offers and required reporting to the Departmental Management Team (DMT) and relevant area committee.
- completion of decommissioning of asset checklist.

18. Estates officers are responsible for ensuring that all activities specified within each stage of sale or lease of the asset are carried out where appropriate. Where officers external to Estates are required to carry out tasks those responsible are clearly identified.

19. There is no specific training for Estates officers involved in delivering the new procedures however this isn’t considered an issue as the processes are similar to those previously carried out meaning officers already have the required skills and experience to follow them. There are regular Estates team meetings where issues relevant to the revised procedures are discussed.

The process followed by officers is consistent with the established policies and procedures.

20. Four asset disposals were sampled to assess compliance with the revised procedures. These are detailed in Exhibit 2 and Exhibit 3 summarises the requirements of the procedure and results of our compliance testing

Exhibit 2 – Sampled Asset Disposals

Asset	Sales Value	Date Sold
Hermitage Park Depot, Helensburgh	£968,250	11/3/2020

Dunclutha Children's Home, Dunoon	£350,000	25/9/2020
Land, Fountainhead, Bunessan	£20,500	31/3/2021
Ardchattan Primary school and schoolhouse	£133,000	22/3/2021

Exhibit 3 – Compliance Testing Results

Procedure Requirement	Compliance Testing Results	Conclusion
The asset holding service confirms it no longer has a need for it either for its existing use or for an alternative operational use. This can be done through a committee decision, DMT or SMT report or with a departmental business case.	All four assets sampled had been declared surplus via an appropriate pathway.	Satisfactory
Procedure outlines number of consultation processes that should take place prior to an asset being sold/leased. These include consulting with partner and community organisations as to whether they have a requirement for the asset.	All assets for sale/lease are advertised on the Council website including those assets included within the sample. In addition there is a link where for external organisations to complete an "expression of interest" enquiry form.	Satisfactory
Prior to the asset being advertised for sale an Information Gathering Checklist should be completed.	Checklist was completed for all four sampled assets. A review of the checklists noted a number of fields had not been completed. On investigation it was confirmed these fields should have had a 'not applicable' response.	Partially Satisfactory – low priority housekeeping recommendation raised
Where appropriate a marketing strategy should be prepared.	All Council assets are advertised on the Council website and external agents were utilised where appropriate and a closing date had been stipulated.	Satisfactory
An indicative valuation should be made of the asset prior to marketing (where appropriate).	This was carried out for two of the four sampled assets. The remaining two 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 where there are no comparable valuations available.	Satisfactory
Complete the decommissioning checklist which outlines the actions that should be carried out prior to the asset being transferred.	The checklist has been completed for all four of the assets sampled.	Satisfactory

Action Plan 1

Appropriate arrangements are in place for the monitoring and reporting of assets both held for sale and sold

21. The procedure state that for all assets where an offer has been received a report should be prepared and forward to the DMT for approval prior to sale. It also detail the key information that should be available within the report such as the proposed selling price and any conditions associated with the offer. All four sampled assets had a report submitted to DMT with the information detailed within it consistent with the requirements of the procedure.
22. The previous audit had recommended that a 'report on all surplus assets is presented periodically to the DMT which includes the current status of each asset and any issues which may adversely impact on the timeous sale/lease of the asset'. Estates now prepare a quarterly report on the status of each asset for DMT. The report was found to be comprehensive covering all the relevant issues pertinent to the status of the assets.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p>Information Gathering Checklist</p> <p>A review of four asset disposal information gathering checklists highlighted that a number of fields had not been completed. On investigation it was confirmed these fields should have had a 'not applicable' response rather than this evidencing steps that had not been completed.</p>	There may be a lack of clarity over whether a step was not performed or not applicable.	Estates Manager will clarify the procedure with the team to confirm that all fields should be completed even if 'not applicable' is the response and this will be minuted at the next Estates Team Meeting.	<p>Estates & Property Development Manager</p> <p>30 September 2021</p>

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
High	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.
Medium	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.
Low	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.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	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.
Substantial	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.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	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.
No Assurance	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.