

Argyll and Bute Council
Internal Audit Report
November 2021
FINAL

Fixed Asset Register (AIRS)

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	5	2	0

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1. Executive Summary

Introduction

1. As part of the 2020/21 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 the Fixed Asset Register.
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. Fixed assets represent a significant financial sum in the balance sheet of the Council. These are capital items that have been acquired, constructed or developed such as land, property, infrastructure and vehicles with the intention of being used to deliver the Council's operational activities.
5. The Capital Plan is submitted to full Council as part of the budget setting process in February every year and identifies the areas of capital expenditure for the year ahead and estimates for the following two years. Funding for the capital plan comes from Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), other capital grants (including European Funding), capital receipts from asset disposals, revenue contributions to capital, prudential borrowing and borrowing funded by the loan charges provision in the revenue budget.
6. For the year 2021/22, the capital plan identified £61.1m of spend covering asset sustainability, service development and strategic change. Restricted funding of £7.3m is also included within this figure to cover grants/external funding for Roads & Infrastructure Service, Development & Economic Growth and major projects.
7. The Capital Plan also reports assets identified for disposal. As at February 2021 there were 22 assets relating to land and buildings listed.
8. Financial regulation FRS102 requires that all Councils report the true and fair value of fixed assets held in their annual accounts. The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of fixed assets. Charges are made to revenue accounts in respect of depreciation, revaluation and impairment losses of tangible fixed assets and amortisation of intangible fixed assets.

Scope

9. The scope of the audit was to assess the accuracy and completeness of the information that is fed into the Fixed Asset Register, via both IT systems and departmental processes as outlined in the Terms of Reference agreed with the Finance Manager on 16 July 2021.

Risks

10. The risks considered throughout the audit were:
 - Audit Risk 1: Failure to comply with financial accounting regulations
 - Audit Risk 2: Failure to comply with organisational policy
 - Audit Risk 3: Value of fixed assets on the balance sheet is incorrect
 - Audit Risk 4: Data integrity cannot be relied upon
 - Audit Risk 5: Financial Loss/Loss of property goes undetected

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 areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

13. We have highlighted, five medium and two low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - Access rights to the AIRS fixed asset register should be periodically reviewed.
 - The reconciliation of AIRS to Concerto should be completed and further reconciliation with fixed asset records held in other council services should be considered.
 - Descriptions should be consistent between AIRS and other fixed asset records or notes applied where common references cannot be used to aid cross reference.
 - Negative values generated by AIRS should be identified and rectified promptly.
 - Periodic analysis of assets should take place to ensure depreciation is appropriately applied and recorded.
 - Assets recorded as 'under construction' should be reviewed and removed timeously upon completion.
 - Annual reconciliation of AIRS to the General ledger should be evidenced as reviewed by a senior officer.
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.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Procedures are in place and logical access is consistent with user duties and responsibilities	All Risks	Substantial	Strategies and plans are prepared and submitted to full council as part of the budget setting process each year. Policies and procedures are in place and responsibilities for asset management sit at an appropriate level. AIRS is the system used to maintain the Council's fixed asset register and access to the system is controlled. One member of staff has moved to a different role within financial services but their access to AIRS has been maintained for business continuity purposes. However, there is currently no periodic review of access rights to AIRS.
2	The Fixed Asset Register is an accurate list of assets held by the Council	Audit Risk 3 & 4	Reasonable	The AIRS asset management system generates asset reference numbers and has appropriate fields for recording assets, disposals and acquisitions. Records were correctly recorded, however it was difficult to locate some items due to inconsistencies in descriptions used between AIRS and records held by services. There is no comparable records held within Roads or ICT services to allow reconciliation between systems and no reconciliations take place with records held by estates or Fleet services.
3	Items on the Fixed Assets Register correctly reflect completion status, value, depreciation and asset life	Audit Risks 1 & 2	Reasonable	There is a five-year rolling programme of revaluation in place to ensure all land and property assets are reflected in the financial statements at fair value. Assets 'under construction' are reflected at cost to date however there are 103 that provided a £0 net book value (NBV) of which 37 had descriptions stating project dates ranging from 2011 – 2015 suggesting they may be incorrectly recorded on the register. Depreciation is applied to applicable assets, however, nine assets

				were found to be incorrectly stated on the asset register.
4	Fixed Assets are correctly reflected in the Council's general ledger	Audit Risks 1, 2 & 3	Substantial	Reconciliation between AIRS and the General Ledger (Oracle) is carried out at year-end, however, there is no evidence of review by senior officer.

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

3. Detailed Findings

Procedures are in place and logical access is consistent with user duties and responsibilities

17. The Capital Plan, Service Plans, Treasury Management Strategy Statement and Annual Investment Strategy are updated annually and submitted to full Council in February each year as part of the budget setting process.
18. Council services manage assets through their service plans which feed into the corporate asset management process managed by Commercial Services. In co-operation with Commercial Services, Financial Services have responsibility for maintaining the Council's fixed asset register – AIRS. AIRS also generates information for use in the Council's Balance Sheet at the year end. The Strategic Asset Management Board identifies, agrees and oversee projects that are recorded as assets under construction on AIRS.
19. AIRS is the system used to maintain the Council's fixed asset register, it is currently an application based system hosted on the Council's ICT infrastructure, however, will be moving to a cloud based application system in the near future.
20. There is a small team of seven staff members who access AIRS and there is one AIRS administrator to facilitate access to the system and provide support. It is therefore not considered necessary to maintain a separate record of user authorisations and there is currently no process in place to review whether access rights remain appropriate. The AIRS user list was provided and all but one active user was found to be appropriate in accordance with their responsibilities, this staff member has moved to another post within Financial Services and has retained access for business continuity purposes.

Action Plan 1

21. A comprehensive AIRS user guide and procedures are available to staff members and provides detailed instructions on how to add, remove and update assets in the register.

The Fixed Asset Register is an accurate list of assets held by the Council

22. All of the Council's fixed assets should be recorded on AIRS as there is no minimum value set for inclusion in the fixed asset register. There are a number of fields for asset information input including, asset reference, description, cost and depreciation. Data held on AIRS was reviewed to assess completeness and accuracy of all assets held on the Council's fixed asset register.
23. Assets are managed by services and in addition to information being held on AIRS, operational information is held in a number of other systems across the Council. Land and property assets are held on the estates service system – Concerto and vehicle assets are held on the fleet

services system – Tranman. It was not possible to obtain comparable records from roads and infrastructure services or ICT Services due to differences in the way that information is recorded e.g. a bulk purchase of laptops is recorded on AIRS as a single item, however, on the ICT records the laptops are recorded separately and allocated to individual users. There is therefore inconsistencies between records held on AIRS and those held by the services. A reconciliation exercise between AIRS and Concerto commenced in 2017/18 but was not completed. There is currently no reconciliation exercise carried out between AIRS and other council records to ensure the fixed asset register is complete.

Action Plan 2

24. A sample of 30 land and property assets from the Concerto system was selected for review to ensure they were appropriately recorded on AIRS. Twenty four assets were found to be complete, two were no longer owned by the Council and one related to a grouping of three assets of which a corresponding entry for two was found. The remaining three were omitted from AIRS.
25. A sample of 25 fleet assets recorded on Tranman were compared with records held on AIRS. Fifteen assets were found to be appropriately recorded on AIRS, two predated the current fixed asset register carrying a net book value (NBV) of zero and two were correctly omitted due to being leased using specific grant funding. The remaining 6 assets could not be reconciled with records held on AIRS due to insufficient information available to match them.
26. Approximately 10% of the random sample from Tranman highlighted inconsistencies in records management. This included the absence or differences in asset reference numbers and variations to descriptions used. Financial services now ensure that vehicle references applied on the Tranman system are consistent with AIRS and vehicle registration numbers are recorded in descriptions where relevant.
27. Purchases of new assets and additions to existing assets are recorded on the Council's general ledger system (Oracle) and information downloaded from Oracle is used to update AIRS at the year end.
28. The omission of a small number of assets from AIRS and those that could not be reconciled does not materially affect the Council's financial statements.

Action Plan 3

29. Financial services are provided with a list of asset disposals from estates and from fleet services at the financial year-end to facilitate updating AIRS. No information is received from roads and infrastructure services as assets are not disposed of and ICT assets are considered to be fully depreciated at the end of the recorded life, any residual value or charges for disposal of ICT assets are revenue and recorded separately in Oracle.
30. A sample of 18 assets recorded as either sold, demolished or as an asset transfer on Concerto were compared with records held on AIRS. All were found to be appropriately recorded on AIRS reflecting their current asset status.
31. A sample of 15 vehicles was also selected for review and these were all found to have been appropriately recorded on AIRS.
32. Twenty five fixed asset acquisitions was selected from Oracle and compared with records held on AIRS. All were found to be accurately recorded.

Items on the Fixed Assets Register correctly reflect completion status, value, depreciation and asset life

33. In compliance with Council policy and procedures, there is a 5 year rolling programme of asset valuations for land and buildings held by the Council. Investment properties, surplus assets, and non-current assets available for sale are valued annually, additionally any assets where spend is over £100k in the year are also revalued, all other asset categories are recorded at historic cost and are not subject to revaluation. There is a service level agreement in place between estates services and financial services which outlines the process to be followed in reaching a valuation decision. Additionally Estates service provide a list of re-valued assets to Financial Services along with copies of the valuation certificates.
34. A sample of 20 assets was selected for review from the valuation lists to ensure that they were scheduled for revaluation in 2020/21. Seventeen assets were identified as due for revaluation on the rolling programme and although not included in the programme, the remaining 3 assets were appropriately revalued due to a change in status. AIRS was appropriately updated to take account of the revaluation for all but one componentised element of an asset, this was an error of transposition and has now been rectified. All revaluations require to be adjusted manually on AIRS as part of the year-end process, this task requires a large volume of input over a very short period of time thus increasing the risk of error. A reconciliation exercise between the general ledger and AIRS is undertaken to mitigate this as it is not possible to automate the process at the current time.
35. The Council has 41 piers and harbours identified as assets and these were considered in terms of revaluation. The RICS Valuation - Global Standards 2017: UK national supplement issued November 2018, effective from 14 January 2019 covering all asset types was reviewed and this states that infrastructure assets should be recorded at historical cost. Piers and harbours are not specifically stated, however, the current practice of recording at historic cost is considered correct and there is no requirement to reflect fair value in the financial statements.
36. Each asset entered to the AIRS system is allocated an asset type which includes the associated expected useful life, however, in exceptional circumstances, where the useful life applied is not considered to be appropriate, this can be overwritten to one of the asset lives outlined in the Treasury Management Strategy Statement approved by Council in February each year. Estates assets with a value greater than £1 million are componentised and this can be clearly seen on the records provided for review.
37. Assets under construction are recorded on AIRS using the value of costs generated to date, additionally, if the asset has been transferred from an operational status, any historic value is also transferred.
38. Throughout the year, project managers are provided with reports detailing assets under construction and expenditure allocated against them, including the status of the asset at the previous year end. A project status update exercise takes place at the year end to establish if any assets under construction should be reclassified as complete.
39. AIRS currently shows 126 assets under construction, 19 of these generated a NBV at the year end and 4 had been reclassified leaving 103 assets with zero NBV and no expenditure recorded throughout 2020/21. Descriptions of 37 assets contained dates of between 2011 and 2015 suggesting that the asset may have been completed and should no longer be recorded as under construction.

40. A sample of 5 assets under construction was selected for review and project managers contacted to confirm the current status, one was ongoing but the remaining four had been completed some time ago and were duplicated in other asset groups on AIRS using different asset reference numbers. There is no financial implication as the NBV of the assets under construction category is zero.

Action Plan 6

41. The fixed asset register (AIRS) was reviewed to assess if depreciation was appropriately applied. There are 4,858 assets recorded in AIRS, four of these were found to have negative NBV totalling £4,321.72, indicating that depreciation had been overcharged however these had been identified and subsequently amended. There is no setting within the AIRS system to alert the user or prevent negative values occurring.

Action Plan 4

42. Revalued assets are not depreciated in the year of valuation but commence the following year in compliance with financial regulations. In the year 2020/21, 203 land and property assets were revalued and from this a sample of 11 buildings and schools selected for review. The values on AIRS were found to have been updated to match the valuation certificates provided by estates services and all accumulated depreciation to date had been written back to allow the assets to re-commence depreciation based on the revised valuation and residual life in 2021/22.
43. Assets with a NBV of £0 have been either transferred, disposed of, are under construction with no in-year expenditure or have already been fully depreciated and are therefore not eligible to be depreciated in 2020/21, 1045 assets fell into this category and were appropriately treated.
44. A total of 862 assets had a positive NBV and were not depreciated, 854 have been treated correctly, one had the wrong asset type allocated, one requires to be written off and three ICT assets with NBVs totalling £2,425k require to be corrected. The smallest of the three ICT assets with a NBV of £20k has never been charged depreciation due to an error and the two larger assets making up the balance stopped charging depreciation in 2018 as the asset lives had expired on the AIRS system. The asset lives required to be updated and a depreciation charge reinstated on both of these assets to provide an accurate NBV for financial reporting purposes. The remaining 3 assets have been correctly categorised as land in AIRS which does not normally require to be depreciated, however, these 3 assets will require future maintenance on the tarmacadam surface and therefore should be depreciated as an indication that future expenditure will be incurred. Guidance is required from the system provider as the land category on AIRS does not facilitate a depreciation charge.
45. The remaining assets were correctly subject to a depreciation charge in 2020/21. As required the charge was correctly written back on 106 of these due to revaluations, and a transfer. One asset depreciation charge incorrectly had not been written back.

Action Plan 5

Fixed Assets are correctly reflected in the Council's general ledger

46. A reconciliation exercise is carried out as part of the annual account preparation process. AIRS records are reconciled to Oracle records, with the gross book value and accumulated depreciation reconciled to the NBV. The reconciliation is reviewed by a senior member of staff

and also by Audit Scotland as part of the external audit, however, there is no evidence that this review has taken place.

Action Plan 7

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p>System Users</p> <p>One member of staff has retained access to the AIRS for business continuity purposes following a move to a new role within financial services, however there is no periodic review of access rights to AIRS to ensure access remains appropriate.</p>	Users may not have been appropriately authorised to gain access to the system or may retain access to privileged information when no longer required.	Review user access annually during the roll forward process.	Finance Manager 31 March 2022
Medium	2	<p>Fixed Asset Register Reconciliation to Service Records</p> <p>The exercise to reconcile AIRS to Concerto commenced in 2017/18 was not completed, additionally, there has been no reconciliation to other council records to ensure that all assets held by Council services are included on AIRS or removed when no longer in use or held as an asset.</p>	The fixed asset register may be incomplete or contain assets no longer held.	Work with Property Services to complete reconciliation between AIRS and Concerto. Look at other systems within the Council to identify any other opportunities to verify those assets not categorised as Operational Land & Buildings.	Accountant - Capital 31 December 2022
Medium	3	<p>Asset Record Maintenance</p> <p>There are inconsistencies in descriptions when recording Council assets across the various systems and asset references are not always available to aid cross referencing. This results in difficulties reconciling assets held in service records to the fixed asset system AIRS.</p>	Assets held to be recorded on AIRS may be omitted or inaccurately recorded.	Work with Property Services and Fleet to ensure systems record the same assets and refer to references on other systems.	Accountant - Capital 31 December 2022

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	4	<p>Negative Values</p> <p>There is no setting within AIRS to alert the user that negative values have been calculated and recorded.</p>	Assets may be incorrectly recorded on the fixed asset register.	Procedures will be updated to include annual review to identify and promptly rectify negative values.	Accountant - Capital 30 June 2022
Medium	5	<p>Depreciation Errors</p> <p>2.6% (one of 38) surplus assets has been incorrectly charged depreciation of £427.40 and 0.7% (6 of 862) assets incorrectly had no depreciation charge applied. (Three are ICT assets normally depreciated over five years with net book value (NBV) totalling £2.4m. One was not depreciated in error and two asset lives had expired prior to being fully depreciated resulting in no further depreciation taking place. Three are categorised as land, however, one is an airport runway and two are car parks, all of which require surface maintenance and therefore should be subject to a depreciation charge to reflect the future expenditure requirement.)</p>	Asset values may be incorrectly stated.	Review of depreciation charges annually.	Accountant - Capital 30 June 2022
Low	6	<p>Assets Under Construction</p> <p>The assets under construction category contained 103 assets with zero NBV or expenditure to date, descriptions stated on 37 assets referred to projects dating between 2011 and 2015. Four of five assets reviewed were confirmed as being completed by project managers, however are still recorded as under construction and were also duplicated in AIRS. However, as they carry a NBV of zero there is no impact on the financial statements.</p>	Assets duplicated or incorrectly categorised on the fixed asset register.	Review annually assets under construction to ensure correctly recorded.	Accountant - Capital 30 June 2022

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
LOW	7	<p>Reconciliation of AIRS to General Ledger</p> <p>General Ledger reports are provided at year end to facilitate reconciliation of assets to AIRS. There is no evidence of the reconciliation exercise being reviewed for accuracy by a senior member of staff.</p>	<p>Reconciliations not subject to review prior to inclusion in the financial statements may increase the risk of error.</p>	<p>Reconciliation to be signed off by Finance Manager annually.</p>	<p>Finance Manager 30 June 2022</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.