

Dacorum Borough Council - Internal Audit Final Report

Property Lettings

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Key dates:

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Date of draft report: March 2012

Receipt of responses: March 2012

Date of final report: March 2012

This report has been prepared on the basis of the limitations set out in Appendix C.

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1. Executive summary

1.1. Background

As part of the contingency budget contained within the Internal Audit programme for 2011/12, approved by the Audit Committee in February 2011, we have undertaken an audit of the Council’s systems of internal control in respect of Property Lettings.

The Valuation and Estates team is part of the wider Property and Asset Management Unit within the Council. The Valuation and Estates team is responsible for managing the Council’s commercial and industrial portfolio and provides a service to land and property transactions. The area of work covered by the Valuation and Estate team includes management of the Council’s commercial properties, including retail, industrial, residential properties and Woodwells Caravan Park; valuation and negotiations for all land purchase / disposals, including Right to Buy transactions; advice to the Council, its services and other agencies on land and property matters; and advice to Parish and Town Councils on land and property matters.

The performance targets for commercial properties for 2011/12 have been set at 95% property occupancy and 9.5% on rent arrears. For quarter 3, performance in property occupancy exceeded the target at 97.49%, whereas rent arrears were at 14.05%.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of the controls in place to manage Property Lettings, and provide guidance on how to improve the controls going forward.

In summary, the scope covered the following areas: policies, procedures and legislation; selection of bidders and issue of documentation; receipt of offers and evaluation; approval and notification and performance monitoring. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

Our audit of DBC’s internal controls operating over Property Lettings found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. In addition, there is evidence that the level of non compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

Evaluation Assessment	Testing Assessment
Substantial	Substantial

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for Property Lettings is shown in Section 3.

1.4. Key findings

We have raised five priority 2 recommendations, where we believe there is scope for improvement within the control environment. We have also identified an opportunity for system improvement which could be considered by management. These are set out below:

- Comprehensive procedure notes should be updated to detail each stage of the property letting process.
- Vacant properties advertised on the website should be regularly updated.
- Application forms should be made available online.
- Introduction of a scoring system in the evaluation process.
- Review of vacant properties listing should be documented.
- Monitoring of Commercial Property performance.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

We received the management responses in a timely manner and these have been included in the main body of the report.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Property Lettings, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner

2.3 Areas covered











The audit was carried out to evaluate and test controls over the following areas:

- **Policies, Procedures and Legislation**
Property lettings are managed effectively and the Authority's aims are complied with.
- **Selection of Bidders & Issue of Documentation**
Where available property is tendered, appropriate bidders are selected from the Register of Interests and all relevant documentation is issued to potential bidders in a timely manner.
- **Receipt of Offers and Evaluation**
The receipt and evaluation process is clear and transparent so that allegations of impropriety may be rebutted.
- **Approval and Notification**
Appropriate references are received prior to approval, and the award decision is reviewed by management and authorised at the appropriate level prior to notification to successful bidder.
- **Performance Management**
Property lettings are processed in accordance with the service targets set, and performance is reported to the appropriate forum.

Audit also contacted other local authorities, requesting advice on best practice in regards to their Commercial Property Lettings function. We contacted three other local authorities, and it was found that they, like DBC, do not have a specific software or system to record their properties, which are also stored on a spreadsheet. However, it was found that some local authorities are beginning to send out applications by email and placing the forms on their website.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
<i>Policies, Procedures and Legislation</i>			Recommendation 1
<i>Selection of Bidders & Issue of Documentation</i>			Recommendations 2 & 3
<i>Receipt of offers and evaluation</i>			Recommendation 4
<i>Approval and Notification</i>			
<i>Performance Monitoring</i>			Recommendations 5 & 6

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Procedure notes (priority 2)

Recommendation

The procedure notes should be updated to include a detailed process of the work carried out by the team.

Observation

The existing procedures document should be updated to provide more guidance on the work carried out by the team. It should be a comprehensive guide, where it provides clear guidance and instructions, to retain consistent working practices and act as a reference point should queries arise. Comprehensive procedure notes can also act as a point of reference when required.

During testing, audit found that whilst there are procedure notes in place, the information provided was limited. The notes given were all one line bullet points and did not go into detail on the process which should be followed for new property lettings. It was also found that the procedure notes have not been updated since 2009 and much of the knowledge within the team was not documented.

Where procedure notes are not comprehensive and knowledge is not documented, there is a risk knowledge may be lost and simple queries cannot be resolved.

Responsibility

Valuation and Estates Manager

Management response / deadline

Agreed – This will be updated immediately.

Recommendation 2: Properties advertised on the website (priority 2)

Recommendation

Officers should ensure that vacant properties listed on the Council's website are current and up-to-date.

Observation

Vacant commercial property lettings are advertised on the Council's website and interested potential tenants register their interests with the Commercial Assets and Property Development Officer, who adds their details to the Register of Interests.

It was found during testing that industrial units in Apsley, which were no longer available, were still being advertised as vacant on the Council's website. The advertising of out-of-date vacant properties misleads potential tenants interested in the property, as information given is inaccurate.

Where inaccurate and incorrect information is made available and accessible to the public, there is a risk that the public are being misled on the properties which are vacant, which could lead to ineffective use of resources and could also lead to reputational damage to the Council for advertising incorrect information.

Responsibility

Valuation and Estates Manager

Group Manager

Management response / deadline

Agreed – Immediate. The information will be reviewed on a weekly basis and instructions will be given to the Estates team to edit the data as units are let.

Recommendation 3: Online application forms (System Improvement Opportunity)

Recommendation

Consideration should be given to placing application forms for vacant properties on the Council's website.

Observation

The Commercial Properties team should consider placing application forms on the Council's website so that interested bidders are able to download the forms directly from the website.

It was identified during testing that application forms are currently being sent by post, although staff are beginning to send the forms out to the interested bidders by email.

Where the application forms are not placed on the Council's website, there is a risk that there will be missed opportunities for potential tenants.

Responsibility

Group Manager / IT Services

Management response / deadline

Agreed. This represents good practice and the suggestion is welcomed. However, there are constraints around the availability of IT resources at present. The development of a web portal will facilitate this approach and the suggestion will be incorporated into the portal development plan.

Recommendation 4: Evaluation process (priority 2)

Recommendation

A formal evaluation system should be introduced in the evaluation process of applications.

Observation

A new scoring process should be considered and introduced into the evaluation process to provide a clear indication of the preferred tenant of the property. By using a scoring system, it provides evidence that bidders were evaluated fairly and provides clear justifications should the selection be questioned by the public.

We found that tenant selections are currently made through recommendations of the surveyor's opinion. A memorandum is produced by the officer, detailing the property which bidders have applied for, as well as providing the Valuation and Estates Manager and Group Manager with a summary table of each applicant, including information on the advantages and disadvantages of each potential tenant, the bidder's business experience and the financial offer that had been made. A signature is required by both the Valuation and Estates Manager and Group Manager, which confirms approval has been sought for the recommendation made.

Where a formal evaluation process is not used, there is a risk that the Council may be unable to support their selection of the successful bidder, causing reputational damage to the Council. Introduction of such evaluation process may help minimise the risk of allegations of impropriety.

Responsibility

Valuation and Estates Manager

Group Manager

Management response / deadline

Agreed. A new Team Leader, Valuation and Estates has been appointed. Review of this and other systems and processes will form part of the new Team Leader's work plan from June 2012. Completion by 31 March 2013.

Recommendation 5: Vacant properties (priority 2)

<p>Recommendation</p> <p>When the vacant property listing is updated and sent to the Group Manager on a monthly basis, the Group Manager should confirm that reviews of the listing has taken place.</p>
<p>Observation</p> <p>The vacant properties listing is updated on a monthly basis by the Commercial Assets and Property Development officer, containing a list of all the Council owned commercial property that is available. The listing is then sent to the Group Manager, who is made aware of the vacant properties.</p> <p>We found that although the listing is produced on a monthly basis, there was no evidence to suggest that a review has taken place to ensure that empty properties or delays in finding suitable tenants are being investigated by the team.</p> <p>Where reviews and discussions of the vacant properties are not documented, there is a risk that properties are remaining vacant for long periods of time without appropriate explanation, as well as a potential loss of income to the Council.</p>
<p>Responsibility</p> <p>Group Manager</p>
<p>Management response / deadline</p> <p>Agreed – this is already taking place between the Group Manager and Team Leader and will be evidenced.</p>

Recommendation 6: Performance monitoring (priority 2)

Recommendation

There should be a more proactive approach to monitoring turnaround times for vacant properties and achieving corporate performance targets.

Observation

A corporate performance report is produced by the Commercial Property team and is provided to senior management. The report highlights two areas, the percentage of commercial property occupation and the percentage arrears on commercial property.

It was identified during testing that performance monitoring is only reported on a quarterly basis, and delays in letting properties are not reviewed on a regular basis. It was also evident that turnaround times for void properties are not recorded and documented, only being undertaken through general monitoring by the Group Manager.

Where monitoring is not undertaken on a regular basis, there is a risk that issues are not being reported and resolved in a timely manner and resources are not being used effectively. There is also a risk of reputational damage to the Council if they are unable to process a void property in a timely manner, which could also lead to financial loss.

Responsibility

Group Manager





Management response / deadline

The Group Manager receives informal reports which indicate that there are no concerns at present over property letting times. However, more formal reporting will be adopted when the new Team Leader is in post, from June 2012.

Appendix A – Reporting definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B – Staff interviewed

The following personnel were consulted:

- Peter Hamilton - Valuation and Estates Manager
- Eileen Lorkin - Commercial Assets and Property Development

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Statement of responsibility

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

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