



Dacorum Borough Council

Final Internal Audit Report

Commercial Asset Management

September 2016

This report has been prepared on the basis of the limitations set out on page 12.

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Distribution List:

Group Manager – Nicholas Brown
Estates & Valuation Team Leader – Adriana Livingstone
Assistant Director (Finance & Resources) – Dave Skinner
Corporate Director (Finance and Operations) – James Deane (Final Only)
Chief Executive – Sally Marshall (Final Only)

Key Dates:

Date of fieldwork: May 2016
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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2016/17, we have completed a risk based audit of the processes in place for Commercial Asset Management.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls for Commercial Asset Management, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies & Procedures, Recording of Assets, Vacant/Void Properties, Rental Income, Budget Monitoring, Monitoring of Performance.

Summary Assessment

Our audit of the Council’s internal controls operating over Commercial Asset Management found 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.

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 Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance 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.

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 over Commercial Asset Management is shown in Section 3.

1.3. Key Findings

We have raised three priority 2 and two priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Policies and Procedures (Commercial Asset Plan) should be made easily accessible to relevant staff on the council's Intranet page (Priority 3).
- All Commercial assets disposed of by the Estates Team should be removed from the Managed Asset register in a complete and timely manner (Priority 2).
- Surveyor Inspections to verify the completeness of repairs for void/vacant properties should be recorded on Information at Work in a complete manner. (Priority 2).
- Progress of Rent Reviews should be regularly monitored to ensure that these are addressed and completed within a valid and timely manner (Priority 2).
- Debt Recovery procedures for Commercial Assets should be reviewed and formally approved (Priority 3).

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

1.4. Management Response

We received the management response in a timely manner, and this has been included in the main body of the report.

1.5. Acknowledgement

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 Commercial Asset Management, with regards to 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 & Legislation

The Council has in place an Asset Management Plan and guidance, which details the rationale for the Council's approach to the management of its commercial assets. These documents should be readily available, and should be reviewed and updated on a regular basis.

Recording of Assets

All the commercial assets should be accurately and completely recorded in an asset register. There should be procedures in place to verify that the assets are in existence. All the assets should be retained in accordance with statutory requirements and the Council's objectives. Acquisition and disposal of assets should be appropriately authorised and updated on the asset register. The assets register should be reviewed and updated on a regular basis.

Vacant/Void Properties

All vacant or void properties should be identified. Procedures should be in place to ensure that vacant properties are advertised and allocated in a timely and transparent manner. Where appropriate repairs are carried out to commercial assets in a timely and cost effective manner.

Rental Income

All rental income due is accounted for correctly to maximise the income due. Procedures are in place to ensure that rents are reviewed and renewed in accordance with the rental agreements. Robust procedures are in place for the effective collection of rent arrears.

Budget Monitoring

Robust procedures should be in place for monitoring the financial performance of the service. Roles and responsibilities should be clearly defined to help ensure accountability. Significant variances should be identified and investigated. The performance should be reported on a regular basis to the appropriate forum.













Performance Monitoring

There should be a performance monitoring framework against which the performance of the service can be monitored. There should be KPI's established for void properties. Timely and accurate management information should be produced and reported to the appropriate forum on a regular basis.

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.

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

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies, Procedures and Legislation			Recommendation 1
Recording of Assets			Recommendation 2
Vacant/Void Properties			Recommendation 3
Rental Income			Recommendation 4 & 5
Budget Monitoring			-
Monitoring of Performance			-

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: Policies and Procedures – Staff Accessibility (Priority 3)

<p>Recommendation</p> <p>Policies and Procedures (Commercial Asset Plan) should be made easily accessible to relevant staff on the Council’s intranet page.</p>
<p>Observation</p> <p>The Commercial Asset Plan should be made easily accessible to all relevant staff via the Council’s intranet webpage so staff are aware of the required procedures and therefore ensuring there is consistent practices across the service area.</p> <p>It was confirmed that there is a Commercial Asset Plan in place, which was last reviewed and updated in February 2016. This is accessible to staff via the cabinet meeting minutes for 9th February 2016 and its supporting documentation. However, the plan is not otherwise locatable on the intranet if staff are unaware of which cabinet meeting documentation to look through.</p> <p>The Team Leader for Estates and Valuation (Commercial Asset and Property Development) confirmed that this is being addressed by the performance team and will be incorporated on both the intranet and Council internet webpage as a public document.</p> <p>Where the Commercial Asset Plan is not easily accessible to all relevant staff, there is a risk that there may be inconsistency practices amongst staff, leading to non-compliance with the Plan.</p>
<p>Responsibility</p> <p>Performance team maintain web/intranet after it is provided by Commercial Asset team</p>
<p>Management response / deadline</p> <p>It has already been updated and is available on the public website. Will be placed on the intranet by 30/9/16.</p>

Recommendation 2: Removal of Disposals from the Managed Commercial Asset Register. (Priority 2)

<p>Recommendation</p> <p>All Commercial assets disposed of by the Estates Team should be removed from the Managed Asset register in a complete and timely manner.</p>
<p>Observation</p> <p>Following the disposal of commercial assets, these should be removed from the Managed Commercial Asset Register to ensure that the register accurately reflects only those assets which are being managed by the Council. An accurate Managed Commercial Asset Register will enable the Estates team to appropriately delegate appropriate resources to ensure that these commercial assets are then appropriately managed.</p> <p>It was confirmed with the Team Leader & Estates Technician Lead Officer that there has only been one managed commercial asset disposed of (December 2015) between the periods January 2015 – April 2016. It was confirmed that there were appropriate authorisations of the disposal, however this asset is still recorded on the Managed Commercial Asset Register as a “current” asset and therefore has not yet been removed from the register.</p> <p>Where disposed managed commercial assets are not removed from the asset register in a complete and timely manner, there is a risk that staff within the Estates team are not aware of those assets which they are responsible for. In addition, there is a risk of overstating the value of commercial assets currently being managed by the Estates Team if disposed of assets are not removed from the register.</p>
<p>Responsibility</p> <p>Team Leader – Estates & Valuation</p>
<p>Management response / deadline</p> <p>The estates technician officer only had 1 case in 18 months and updated the GIS, the disposal asset manager page but missed the managed page in error as the pages on asset manager are not linked. More care will be taken in future.</p> <p>All disposals will be checked by the Team Leader with effect from 13/9/16 to ensure that all actions have been completed.</p>

Recommendation 3: Documentation of Repair Inspections by Surveyors on Information at Work (Priority 2)

<p>Recommendation</p> <p>Surveyor Inspections to verify the completeness of repairs for void/vacant properties should be recorded on Information at Work (documentation system maintaining records of all Commercial Assets) in a prompt manner.</p>
<p>Observation</p> <p>Surveyors should ensure that following an inspection confirming the completion of repair work for void/vacant properties, that this is recorded on Information at Work under the relevant asset in a complete and timely manner. Appropriate records of inspections undertaken of repairs will ensure that there is a clear audit trail in place to confirm that the repairs have been verified as completed to an appropriate standard before being rented.</p> <p>Between the periods August 2015 – May 2016 it was identified that there were six completed vacant cases, where the commercial assets are now reoccupied. Of the six completed cases, the following was identified:</p> <ul style="list-style-type: none"> - In two cases, we confirmed the surveyor inspected and confirmed repairs were completed in line with the councils requirements. - In one case, a repair of the commercial asset was not applicable. - In three cases, we confirmed evidence of correspondence between the Council and outgoing tenant of the requirement of repairs, however the completed inspection was not recorded on Information at Work by the relevant surveyor. <p>Where Information at Work does not completely record that an inspection was carried out and repairs were of satisfactory condition, there is a risk that appropriate records are not retained for future reference. Where evidence of repairs being verified are not in place, there is a risk that these have not been completed to a satisfactory standard and therefore may lead to financial and reputational damage for the Council.</p>
<p>Responsibility</p> <p>Team Leader – Estates & Valuation</p>
<p>Management response / deadline</p> <p>The team will introduce a work flow/ records in information at work to record a repairs inspection for void properties when they become vacant to increase the accuracy of the records. By 31/10/16</p>

Recommendation 4: Rent Reviews – Progress Monitoring (Priority 2)

<p>Recommendation</p> <p>Progress of Rent Reviews should be regularly monitored to ensure that these are addressed and completed within a valid and timely manner.</p>
<p>Observation</p> <p>Where Rent Reviews are overdue, these should be regularly monitored to ensure that they are addressed in a complete and timely manner. The Lead Surveyor & Team Leader should review the performance of all outstanding rent-reviews, regularly monitor surveyor performance and identify those cases which are high priority. This will ensure that rent reviews are not outstanding for prolonged periods of time and that the appropriate revised rent can be identified to ensure the Council receives the accurate level of income.</p> <p>We tested a sample of 10 Rent Reviews which were due between January – March 2016. Rent Reviews are identified a year before they are due, so they can be distributed to Surveyors to address in a timely manner. Of the sample of the 10 Rent Reviews, the following was identified:</p> <ul style="list-style-type: none"> - In four cases, the rent reviews were accurately completed; - In one case, the rent review became no longer applicable as the Tenant went into liquidation; and - In in two cases, the rent reviews are still in progress and in two cases the rent reviews have not yet been started. <p>Discussions with the Team Leader confirmed that there has been a severe back log of Rent Reviews due to a shortage of staff in 2015.</p> <p>Where Rent Reviews are not addressed and completed within a timely manner, there is a risk that the appropriate level of rent is not identified at an appropriate time that is in line with market rates. Where this occurs, there is a risk that the appropriately level of rent due to the Council is delayed and therefore not received in a timely manner. In addition, where there is a delay in completing a rent review, there is an increased risk that backdated payments will have to be made by Tenants, which may result in financial and reputational damage for the Council if they are unable to recover this income due.</p>
<p>Responsibility</p> <p>Team Leader – Estates & Valuation</p>
<p>Management response / deadline</p> <p>A review of current working practices has been commissioned and a draft report issued. This sets of recommendations and an action plan to improve monitoring and reporting of rent review completions.</p> <p>Monthly reports will be produced by the Team Leader from October 2016 and reviewed by the Group Manager Commercial Assets and Property Development on a monthly basis.</p>





Recommendation 5: Approval of Commercial Asset Debt Recovery Procedures (Priority 3)

<p>Recommendation</p> <p>The Debt Recovery Procedures for Commercial Assets should be reviewed and formally approved by the Group Manager.</p>
<p>Observation</p> <p>The Debt Recovery Procedures for Commercial Assets should be reviewed and formally approved by the Group Manager, to ensure that the contents of the procedures are accurate and in line with the Council’s requirements.</p> <p>It was confirmed that there is Draft Debt Recovery Procedure specifically for Commercial Assets in place which is yet to be approved. There is however a general Debt Recovery procedure in place for the Sundry Debtors Team which was last reviewed in October 2015.</p> <p>Where the Debt Recovery Procedures for Commercial Assets are not approved in a timely manner, there is risk that there are inconsistent practices conducted by officers, which may hinder the debt recovery process. Where this occurs, arrears collection may become weak and therefore may result in financial and reputational loss for the Council.</p>
<p>Responsibility</p> <p>Group Manager Commercial Assets and Property Development and Group Manager Financial Services</p>
<p>Management response / deadline</p> <p>Finance have confirmed that the procedures were all reviewed again in August 2016 as part of the annual review process. This was 2 months earlier than diarised as was due for review in October. The commercial arrears recovery fall under the main debt recovery procedures. The additional procedures are still being finalised and are still at draft stage. Any amendments to procedure occur as processes are amended.</p> <p>By 31/10/16</p>

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:

- Nicholas Brown – Group Manager (Commercial Assets & Property Development)
- Adriana Livingston – Team Leader
- Jane Alexander – Estates Technician Lead Officer
- Lucy Tash – Accountant (Finance & Operations)
- Clare Dempsey – Sundry Debtors Lead Officer
- James Wilson – Corporate Performance Management Lead Officer
- Yamini Krishnan – Financial Accountant (Regulatory & Financial Accounting)

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

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 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 our 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

September 2016

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