



INTERNAL AUDIT REPORT – ASSET MANAGEMENT

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<u>Distribution:</u>	Audit Committee Chief Executive Director of Corporate Services Director of Environmental Services Director of Leisure & Development Chief Finance Officer Head of Estates Projects Director Senior Projects Accountant Corporate Health & Safety & Insurance Manager Fleet Manager
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<u>Audit Committee</u>	<u>14 March 2018</u>

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

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Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2017/18. This report summarises the findings arising from a review of Asset Management which was allocated 10 days.

Through our audit we found the following examples of good practice:

- A Fixed Asset register is in place which is reconciled to the general ledger so that accounts can be accurately produced in timely manner
- Land and buildings are re-valued regularly to ensure that the correct value is recorded in the Fixed Asset register
- The acquisition and disposal of land and buildings is approved by Council (appropriate Committee)
- Finance is notified in a timely manner of the disposal of an asset
- The relevant asset register is amended as soon as notification is received of the disposal or transfer of an asset
- The Council holds adequate insurance cover for its assets
- The insurer is advised of the appropriate value of assets (particularly land and buildings)

Two areas (Priority 2) where controls could be enhanced were noted during this review.

The following table summarises the total number of recommendations from our audit (all recommendations being accepted by management):

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed.	-	1	-
There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers.	-	1	-
Total recommendations made	-	2	-

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory

Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and will consider the main risks in relation to Asset Management and to review the key systems and controls in place to address these. The review focused on:

- Policies and procedures are in place for the management of fixed assets
- Recording and accounting for fixed asset acquisitions and disposals, the identification, transfer and disposal of fixed assets
- Monitoring and safeguarding fixed assets acquired by the Council
- Insurance cover for Council assets.

Background

The Chief Finance Officer at the Council is responsible for recording assets within the Council. Land and buildings are re-valued every five years in line with government policy.

Capital additions are identified as goods are entered onto the purchase ledger and are appropriately charged to the relevant addition code in the TASK system.

The Council uses an insurance broker to organise insurance cover and provide a link between the Council and insurers. The Council currently uses Willis Insurance Brokers for this service who specialise in provision of insurance to the public sector bodies.

Risks

The risks identified relating to Asset Management and agreed with management are as follows:

1. There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed
2. There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers
3. There may be inadequate procedures in place in relation to the monitoring and safeguarding of Council assets leading to increased risk of misappropriation of assets
4. There may be insufficient insurance cover in relation to Council assets resulting in financial loss to the Council

Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Chief Finance Officer
Senior Project Accountant
Insurance Officer

Good work has been highlighted by the fact that Causeway Coast & Glens Borough Council has a detailed, up to date Fixed Asset Record in place which is a testimony of a highly effective and motivated projects accountancy team.

Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

6.1 Risk 1 – Asset Management Policy

Strategic Plan
<p>a) Observation-</p> <p>The Senior Project accountant advised that a draft capitalisation policy was drawn up in May 2017 but this has not been approved by Management or Council.</p> <p>The Director of Corporate Services has advised that a piece of work has commenced which looks at Asset Management in the broader strategic sense bringing together all of the processes which Council currently have whilst providing strategic direction. All of this information will be pulled together into one overarching strategic document, in accordance with best practice.</p>
<p>b) Implication- Potential inconsistencies in how Council assets are managed.</p>

c) Priority Rating- 2
d) Recommendation- The Council should finalise the overarching strategic policy in relation to asset management. This policy should be communicated to staff and reviewed regularly.
e) Management Response- Finalise draft policy, including procedural supplements and submit to SMT for consideration followed by submission to the consultation and Council approval processes.
Responsible Officer & Implementation Date- Chief Financial Officer, by 30 June 2018

6.2 Risk 2 – Recording and Accounting of Fixed Assets

Maintenance Records
a) Observation- The senior Project Accountant has advised that a draft procedural Supplement to the Council's Capitalisation Policy and to the Councils Accounting Policies in relation to additions, disposals and transfers has been drawn up but this has not been approved by management or Council.
b) Implication- Possible incorrect accounting treatment and incomplete asset registers
c) Priority Rating- 2
d) Recommendation- Procedures in relation to additions, disposals and transfers should be incorporated within the overarching strategic policy as per risk 1.
e) Management Response- See 6.1 Risk 1 Management Response
Responsible Officer & Implementation Date- Chief Finance Officer, by 30 June 2018

6.3 Risk 3 – Monitoring and Safeguarding of Council assets

Audit has no findings or recommendations to make in relation to this risk area.

6.4 Risk 4 – Insurance of Council assets

Audit has no findings or recommendations to make in relation to this risk area.

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

Risk	Control issues
<p>There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed</p>	<ul style="list-style-type: none"> • A Fixed Asset policy and procedure is in place • The policy has been communicated to staff • The policy and procedure is reviewed regularly
<p>There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers</p>	<ul style="list-style-type: none"> • A Fixed Asset register is in place that records: <ul style="list-style-type: none"> ○ Detail of the item ○ Cost of item ○ Depreciation rate ○ Location of asset • The Fixed Asset Register is reconciled to the general ledger so that accounts can be accurately produced in timely manner • Land and buildings are re-valued regularly to ensure that the correct value is recorded in the Fixed Asset register • There is a clear, documented process for the treatment of disposal or transfer of assets • Disposal of assets is approved by the relevant officer prior to the disposal • The acquisition and disposal of land and buildings is approved by Council (appropriate Committee) • Finance is notified in a timely manner of the disposal of an asset • The relevant asset register is amended as soon as notification is received of the disposal or transfer of an asset
<p>There may be inadequate procedures in place in relation to the monitoring and safeguarding of Council assets leading to increased risk of misappropriation of assets</p>	<ul style="list-style-type: none"> • Staff are aware of their responsibilities to safeguard Council assets • An inventory of the asset registers is regularly undertaken • Assets are physically verified throughout the year – particularly portable, desirable items • Differences identified through the inventory / physical verification are investigated and any necessary adjustments made in line with procedures
<p>There may be insufficient insurance cover in relation to Council assets resulting in financial loss to the Council</p>	<ul style="list-style-type: none"> • The Council holds adequate insurance cover for its assets • The insurer is advised of the appropriate value of assets (particularly land and buildings)