



# GEDLING BOROUGH COUNCIL

## INTERNAL AUDIT REPORT - FINAL

ASSET MANAGEMENT  
OCTOBER 2021

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Moderate

IDEAS | PEOPLE | TRUST



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#### DISTRIBUTION

Joelle Davies	Head of Regeneration & Welfare
Emma Wimble	Property Services Manager

#### REPORT STATUS LIST

Auditors:	Helena Warnett & Max Armstrong
Dates work performed:	19 July - 10 August 2021
Draft report issued:	20 August 2021
Final report issued:	27 October 2021

## EXECUTIVE SUMMARY

### LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

### SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	1
Low	3

TOTAL NUMBER OF RECOMMENDATIONS: 4

## CRR REFERENCE

Risk 6: Failure to protect and utilise physical assets.

## BACKGROUND

Strategic asset management is the activity that seeks to align the asset base with the organisation's corporate goals and objectives. It ensures that the land and buildings asset base of an organisation is optimally structured in the best corporate interest of the organisation concerned. Managing property assets requires co-ordination with all parts of the organisation to be successful and in order that the most effective space is delivered.

As detailed within the RICS Public Sector Asset Management Guidelines (2<sup>nd</sup> edition), organisations practicing property asset management disciplines will (not an exhaustive list):

- Prioritise property asset management at a senior level and install a senior executive as property asset 'champion'
- Link the property asset management plan to the corporate vision and policies
- Link property asset management with all corporate strategies and work across internal and external organisational and authority boundaries to appropriately align all property asset management strategies to produce aligned partnership asset strategies where appropriate
- Consider all practical options for financing of new property assets
- Ensure that mechanisms are in place to measure customer satisfaction
- Collect, analyse, store and keep updated all relevant property asset data
- Conduct post-implementation reviews of all capital projects
- Engage with other organisations and share learning to drive a process of continuous improvement.

Gedling Borough Council (the Council) has a diverse portfolio of assets (made up of land and

buildings) ranging from community centres, parks and open spaces serving the residents of the borough, through to commercial and investment property, providing an income to the Council and accommodation for small local businesses.

The Council has drafted an Asset Management Plan (AMP). However, this was undertaken by staff who have now left the authority and requires a full review and update before it can be put forward for approval. Events such as Covid-19, Council restructures and other staffing priorities means that the Council have been unable to review the draft AMP and progress this any further to date. However, it is anticipated the AMP will be reviewed and refreshed over the next six to 12 months and will be the framework for the review and management of existing and future assets.

The Council's balance sheet should accurately reflect the value of its fixed assets. The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21 (the Code) and the Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards January 2020 (the Red Book) set out the requirements that must be followed to meet this objective. An assessment of asset condition determines investment required over the life of the asset to ensure they continue to be fit for purpose in service delivery.

Assets are valued biennially by the Property Services Manager who is a member of RICS. All revalued assets are then notified to the finance team who will update the accounting records to reflect the accurate value of all assets.

We enquired about processes in place to ensure assets are valued accurately, rental income is collected from tenants leasing the Council's assets, repairs and maintenance is undertaken on the assets in a timely manner and that KPIs are in place and reported to management. We tested a sample of 10 asset valuations, 10 repairs/maintenance and 10 rental income payments to assess the effectiveness of the controls in place.

#### GOOD PRACTICE

The following areas of good practice were identified:

- All assets reviewed in our sample test had been subject to a valuation in accordance with the Council's valuation schedule and had been valued within the past two years. We confirmed that all valuations had been undertaken by the Property Services Managers who is a qualified member of the Royal Institute of Chartered Surveyors
- All rental income receipts reviewed were accurate and agreed to the amount due per the lease agreements. Tenants were issued invoices and in most cases (with exceptions noted in Finding 3), rent payments were paid within 30 days of the invoice being issued. A spreadsheet with the dates that invoices and payments were received from each tenant to track and chase overdue payments
- Repairs and maintenance payments agreed to invoices and purchase orders in all cases sampled confirming that contractors were paid accurately. All contractors were paid in a timely manner upon receipt of an invoice.

#### KEY FINDINGS

- **Performance** - Local performance targets are not in place and monitored within the Property Services team and the Property Services Service Plan report to the senior leadership team (SLT) does not include sufficient detail (**Finding 1 - Medium**)
- **Repairs and Maintenance** - A log is not maintained to record all repairs and maintenance to the Council's assets meaning that the time taken for

repairs/maintenance to an asset from the original request cannot be tracked (**Finding 2 - Low**)

- **Invoice payment** - There were three instances where rental income had not been received within the 30-day credit period. In one of these cases, an invoice of £32,566.35 was still outstanding when audit testing was completed (**Finding 3 - Low**)
- **Valuations** - There is not a separation of duties in place for asset valuations and there were four instances in our sample of 10 asset valuations where the valuation method was not stated on the asset management system (**Finding 4 - Low**).

## ADDED VALUE

As detailed within the introduction the Council has drafted an Asset Management Plan (AMP), however this was undertaken by staff who have now left the authority and requires a full review and update before it can be put forward for approval. In order to assist with the review we have benchmarked the Council's previous AMP with 10 other local authorities to identify whether any good practice could be identified and applied to the Council's AMP.

We have identified four key differences and included the results within the observation section of this report.

## CONCLUSION

There have been recent departures within the Property Services team which has led to the Council revising its AMP. Whilst we identified some omissions in the previous AMP, our benchmarking found that in general the Council's AMP was consistent with other local authorities' asset management plans.

Where repairs and maintenance took place, contractors were paid accurately and promptly. However, a log was not maintained to record all repairs/maintenance requests. Local performance reporting was conducted informally and reporting to the SLT was weak with inadequate updates provided to the SLT on the implementation of the KPIs established in the Property Services Service Plan 2021-22. Although payments from tenants were generally received within the Council's credit terms, our sample test noted some exceptions.

We have concluded that there is moderate assurance over both the design and the operational effectiveness of the Council's asset management processes.

## DETAILED FINDINGS

RISK: THERE IS INADEQUATE OR INEFFECTIVE SCRUTINY OF MANAGEMENT INFORMATION, LEADING TO POOR PERFORMANCE THAT IS NOT CHALLENGED

Ref	Significance	Finding
1	Medium	<p><u>Performance</u></p> <p>The Property Services Manager monitors the performance of the Property Services team on an ongoing basis and has access to the systems used by both the Estates team and the Building Services team to ensure she is aware of any issues. Furthermore, the Manager meets bi-weekly with each team to have an informal discussion about any issues and a wider Property Services team meeting each month. However, there are no reports provided at these meetings to monitor the key performance indicators (KPIs) of each team.</p> <p>There are a series of KPIs which are submitted to the Senior Leadership Team (SLT) and the Scrutiny Committee for review each quarter. These monitor the performance against the KPIs set out in the Property Services Service Plan and are higher level KPIs for asset management more widely, eg 'COM21.2.1 Review the long term sustainability of community centres as part of the asset management plan'.</p> <p>However, we reviewed the Property Services Service Plan report for Q1 2021/22 and noted that whilst the format of the report is adequate and allocates each of the KPIs to a specific officer and has an implementation date, there was a lack of detail in the 'Progress' and 'Latest Note' columns of the report. In all cases the Action Progress Bar was at 0%. We were informed that due to the recent restructure the responsibility for writing the reports has changed and this has resulted in them being incomplete. It is anticipated this will be resolved by the quarter two return.</p> <p>There is a risk that inadequate performance is not identified and addressed if reporting at a local level and organisational level is not sufficiently detailed.</p>

## RECOMMENDATION

- A. A series of KPIs) should be agreed by the Property Services team and reported in a formal report each month to the Property Services Manager, for example:
- % rental income from Council properties received within 30 days
  - Value of outstanding rental income
  - % repairs completed within a specified number of days from the original request
  - % of projects where cost is within +/- 5% of the estimated outturn
  - % of projects falling within +/- 5% of the estimated timescale
  - Customer satisfaction levels are above XX%
  - % split between planned and responsive maintenance.

The Council should ensure that all Property Services Service Plan reports include a progress update against each KPI to ensure the SLT are aware of the progress being made against each of the measures. This should include some narrative in the report to explain the actions undertaken towards the completion of KPIs.

MANAGEMENT RESPONSE

Agreed.

Responsible Officer: Emma Wimble

Implementation Date: 31 March 2022

**RISK: ASSET REPAIRS AND MAINTENANCE ARE PROCESSED INEFFECTIVELY OR NOT IN LINE WITH COUNCIL PROCEDURES, LEADING TO POOR CONDITION OF ASSETS, WHICH COULD LEAD TO A DECREASE IN VALUE OF COUNCIL ASSETS**

Ref	Significance	Finding
2	Low	<p><u>Repairs and maintenance</u></p> <p>Requests for repairs or maintenance to the Property Services team are usually received verbally or via email. When a request is received the Property Services team will assess the urgency of the matter. A purchase order is raised on the Agresso system which will automatically be transferred to the Property Services Manager to approve. Once the purchase order has been approved the Property Services team will contact a contractor to complete the work, utilising a formal list of approved contractors. In the event of an emergency repair, the Property Services team have the flexibility to request the work from the contractor before the purchase order has been approved.</p> <p>Requests for property repairs are received on an ad hoc basis. We were informed that the Property Services team do not have a portal or a log to record all repairs and maintenance requests. Therefore, in our sample test of six asset repairs and four asset maintenance payments we were unable to confirm whether the repairs and maintenance work were completed in a timely manner.</p> <p>This is a low risk as repairs and maintenance work is for example: removal of carpet, fire alarm maintenance, fitting new locks, changing a florescent light tube.</p> <p>Inadequate recording of requests could lead to delays in repair requests being actioned resulting in damage to Council-owned buildings.</p>

#### RECOMMENDATION

The team should review whether a log should be created for all repairs and maintenance requests that are received in order to allow a centralised record. This could be maintained on an Excel spreadsheet and contain the following information:

- Date and person by whom the request was received from
- Contractor allocated to the work
- Date the work was completed by the contractor
- Cost of the repairs/maintenance.

#### MANAGEMENT RESPONSE

We do not see the need to record repairs and maintenance requests due to these mainly relating to a request to change a fluorescent light or refill a hand gel machine. What we do agree with is that in the absence of a proper property database which records building repairs, service inspections etc that a spreadsheet would then be beneficial to the Council.

Responsible Officer: Emma Wimble

Implementation Date: 31 December 2021

**RISK: RENTS ARE NOT ADEQUATELY CONTROLLED, DOCUMENTED AND COMPLETED IN AN APPROPRIATE AND TIMELY MANNER**

Ref	Significance	Finding
3	Low	<p><u>Invoice payment</u></p> <p>The Council lease out several properties to tenants who pay rent monthly, quarterly or annually depending on the terms of the lease agreement. Payment terms are 30 days from the invoice date. Tenants either set up a direct debit for the rental payment or pay the Council upon receipt of the invoice.</p> <p>We tested a sample of 10 invoices issued to tenants by the Council between April and July 2021 and found:</p> <ul style="list-style-type: none"> <li>• There was one instance where the tenant was issued an invoice for £32,566.35 on 1 July 2021 which had not been paid as at 5 August 2021, thereby exceeding the payment terms</li> <li>• There were two instances where the tenant paid the invoice one and 18 days later than the payment terms.</li> </ul> <p>It is acknowledged that a more flexible approach to the 30 day payment term has been taken throughout the Covid-19 period.</p> <p>There is a risk that the Council are not able to recover the rent due from tenants leading to irrecoverable debt.</p>

**RECOMMENDATION**

The Estates team should be reminded to communicate with tenants that have not paid within the 30-day payment term to ensure that monies can be recovered in a timely manner. If certain tenants consistently fail to pay rent on time then formal debt collection procedures should be initiated by the Accounts Receivables team and these should be communicated with the Estates team.

**MANAGEMENT RESPONSE**

Agreed.

Responsible Officer: Emma Wimble

Implementation Date: 31 December 2021

**RISK: ASSETS ARE INACCURATELY VALUED BASED ON CHANGES TO THE CONDITION OF THE PROPERTY AND THERE IS INADEQUATE RECORDING OF CHANGES IN VALUE, LEADING TO AN INACCURATE UNDERSTANDING OF THE COUNCIL'S FIXED ASSETS**

Ref	Significance	Finding
4	Low	<p><u>Valuations</u></p> <p>The Council revalue each of their assets biennially on an alternating cycle, ie some will have been revalued in 2017 and then 2019 with others revalued in 2018 and then 2020. Revaluations are all undertaken by the Property Services Manager who is a member of the Royal Institute of Chartered Surveyors (RICS). The current Property Services Manager was appointed to the role in April 2021 so all valuations prior to this were conducted by their predecessor.</p> <p>There are currently 113 assets on the Council's asset list.</p> <p>We were informed by the Property Services Manager that valuations are not reviewed and then authorised by a different officer.</p> <p>This could lead to inaccurate valuations due to a lack of a review process and result in an over or understatement in the value of individual and collective assets held by the Council.</p>

#### RECOMMENDATION

1. Staff involved in the valuations should be reminded to state the valuation method used within their valuation report and on the property management system
2. The Council should introduce a review process for revaluations of assets. We understand that the Council only have one qualified surveyor (the Property Services Manager) who undertakes the valuation, so the approval/authorisation could be used as a method of process of senior officers confirming that the agreed process has been followed for each property. This approval should be undertaken by a more senior member of staff.

#### MANAGEMENT RESPONSE

Agreed.

Responsible Officer: Joelle Davies (Mike Hill in her absence)

Implementation Date: Next round of valuations (31 December 2021)

## OBSERVATIONS

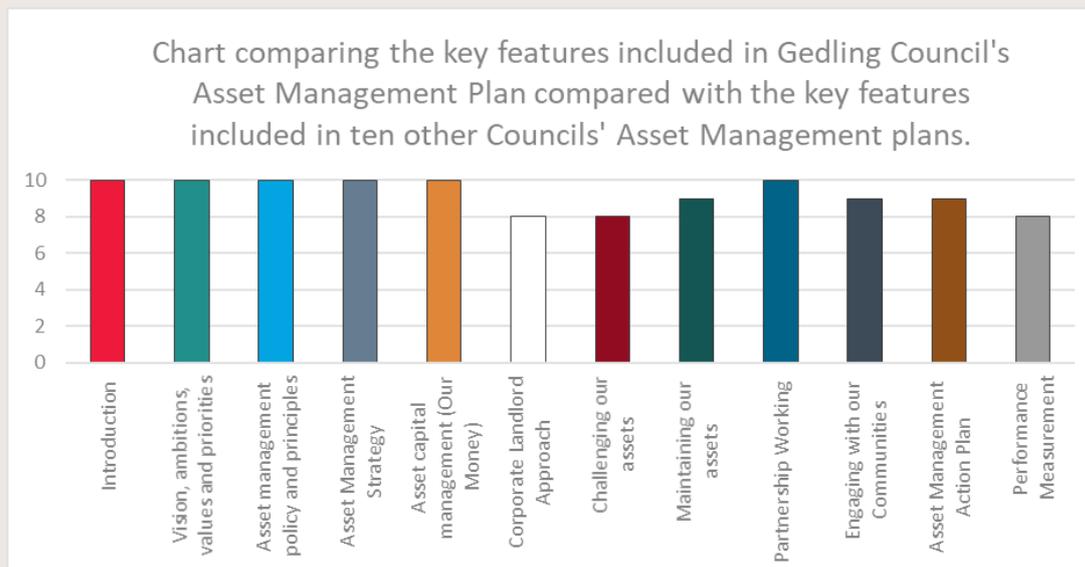
### ASSET MANAGEMENT PLAN - BENCHMARKING

The purpose of benchmarking is so an organisation can gain an independent perspective about how well they perform compared with other organisations. We carried out a strategic benchmarking exercise which compared the Council's AMP to the following Council's AMPs:

- Aberdeenshire Council
- Cumbria County Council
- Derbyshire County Council
- Eastleigh Borough Council
- Kent County Council
- Mid Devon District Council
- Rushcliffe Council
- Solihull Council
- North Ayrshire Council
- Sussex County Council.

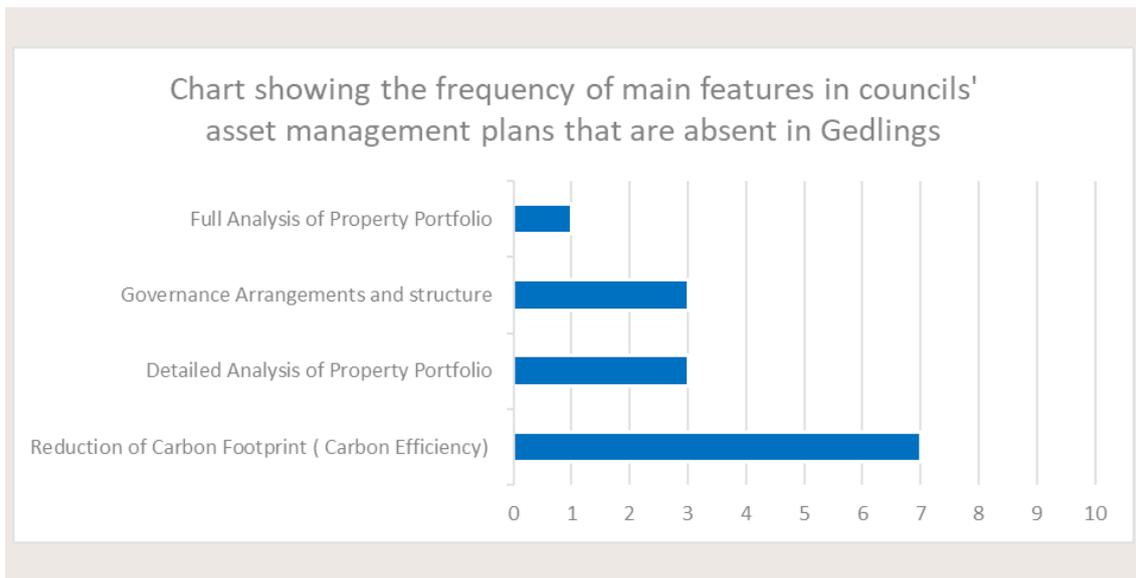
We identified the following results:

The main sections within Gedling Borough Council's current draft AMP were compared with the 10 other Council's AMPs as detailed above. The graph below shows that the sections included within the current draft are also included in 8-10 of those we benchmarked against.



The graph below shows that there are four sections included in other Council's AMPs that are not currently included in the Council's draft AMP:

- Reduction of Carbon Footprint (Carbon Efficiency)
- Detailed Analysis of Property Portfolio
- Governance Arrangements and structure
- Full Analysis of Property Portfolio.



**STAFF INTERVIEWED**

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Christine Pitcher	Building Services Officer
Emma Wimble	Property Service Manager
Joelle Davies	Head of Regeneration & Welfare
Sue Wass	Estates Technical Officer

APPENDIX I - DEFINITIONS				
LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

## APPENDIX II - TERMS OF REFERENCE

### PURPOSE OF REVIEW

To review and assess whether assets are managed effectively and valued correctly. We will also review whether rent reviews assess market value to ensure the Council is getting the most out of its assets.

We will benchmark the current draft of the Gedling AMP against other local authorities and assess where there may be gaps to consider. In addition it will aim to identify areas of best practice that can be utilised when reviewing and re-drafting the AMP.

### KEY RISKS

- Asset management is not prioritised at a senior level and there is no senior executive as property asset ‘champion’
- Assets are inaccurately valued based on changes to the condition of the property and there is inadequate recording of changes in value, leading to an inaccurate understanding of the Council’s fixed assets
- Rents are not adequately controlled, documented and completed in an appropriate and timely manner
- Asset repairs and maintenance are processed ineffectively or not in line with Council procedures, leading to poor condition of assets, which could lead to a decrease in value of Council assets
- There is inadequate or ineffective scrutiny of management information, leading to poor performance that is not challenged.

### SCOPE OF REVIEW

The following areas will be covered as part of this review:

- Ascertain whether asset management is prioritised at a senior level and whether a senior officer has been identified as the Council’s property asset ‘champion’
- Review how asset valuations are determined at the Council. Review a sample of Council-owned properties to:
  - Ensure that valuations are carried out in line with defined requirements
  - Ensure there are appropriate authorisations for changes in value and are supported by appropriate evidence.
- Review a sample of Council-owned properties to assess whether rental incomes are per the most up-to-date agreement, market value has been assessed, rent is being invoiced and collected in a timely manner, and rental income in the finance system agrees to tenancy schedules
- Ascertain the process for ensuring asset repairs and maintenance are undertaken in a timely manner. Review a sample of asset repairs and maintenance undertaken over the last six months
- Review a sample of oversight reports to confirm performance monitoring is carried out.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

## APPROACH

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

**FOR MORE INFORMATION:**

**Greg Rubins**

Greg.Rubins@bdo.co.uk

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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