

Oxford City Council

Commercial Property

FINAL

Internal Audit Report
2011/2012
March 2012
23



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Distribution List

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For action	Steve Sprason (Head of Corporate Assets) Pete Johnson (Revenues Manager)
For information	Nigel Kennedy (Head of Finance) Jackie Yates (Corporate Director – Finance and Efficiency) Peter Sloman (Chief Executive)

1. Executive summary

Report classification	Trend	Total number of findings																								
 <p>High Risk (25 points)</p>	N/A	<table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>1</td> <td>1</td> <td>1</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>1</td> <td>0</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>2</td> <td>1</td> <td>2</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	1	1	1	0	Operating effectiveness	0	1	0	1	0	Total	0	2	1	2	0
	Critical	High	Medium	Low	Advisory																					
Control design	0	1	1	1	0																					
Operating effectiveness	0	1	0	1	0																					
Total	0	2	1	2	0																					
An audit of commercial Property audit was not conducted in 2010/11.																										

Summary of findings:

The Council requested this review to examine the design and compliance with current procedures over the financial aspects of commercial property.

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Two high risk issues have been noted in this review:

- 80% of commercial property invoices for new and amended properties tested that we tested were raised late, increasing recovery risk. A performance indicator should be considered; and
- The reconciliation of assets on Uniform, the property system, to the Fixed Asset Register has lapsed because of a change in staff. A reconciliation will ensure that the value and number of assets recorded in the accounts is complete and accurate. At present, limited comfort can be had in this area.

The Council has introduced a standard “change note” in year to ensure that information is provided to finance to assist the raising of invoices on a timely basis. In addition, a comprehensive reconciliation of the billing accounts held on the General Ledger to the Uniform system was performed in 2010 in order to identify additional income that the Council may be due from rent.

The Council is currently undergoing a review of standard operating procedures. Our review identified that there are currently no procedure notes in place for the set up and collection of commercial property income, though procedures are in place for the set up and collection of sundry income on the Agresso (General Ledger) system. Officers should liaise with the Council’s transformation team in order to ensure that comprehensive documents are put in place to outline the processes in this area.

2. Background and scope

Background

Commercial Property Management is one of the responsibilities of the Corporate Asset department. Commercial property belonging to the Council is spread across the city centre and includes both Council-owned offices and retail property located within the city centre and at out-of-town retail centres. Total external income from commercial property per the 2011/12 budget book is budgeted at £6,844,042.

This review seeks to understand and evaluate key controls surrounding commercial property income processes with the objective of ensuring that:

- the Council has a complete listing of all commercial property income sources;
- commercial property tenants are invoiced in a timely, complete and accurate fashion; and
- there are sufficient debt collection, recovery and write-off procedures in place to ensure that income collection is maximised

Scope and limitations of scope

Scope

NW will review the design and operating effectiveness of key controls relating to commercial property income during the period 2011/12.

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Setting up commercial property accounts	Accounts for use of commercial property are raised on receipt of properly authorised and complete request documentation
Processing of invoices and refunds	Invoices are raised in a timely, complete and accurate fashion Only valid and accurate credit notes are raised
Income collection	Debt collection, recovery and write-off procedures are sufficient to ensure that delay in receiving payments and loss of income is minimised Aged debt is reviewed on a regular basis
Completeness of commercial property income streams	Systems are in place to ensure all commercial properties owned by the Council are identified and billed
Management information	Exception reports are completed to highlight trends and unusual transactions

Accounting for commercial property

Correct information on commercial property income is fed into the Council's general ledger system

Limitations of Scope

The scope of our work will be limited to those areas outlined above.

3. Detailed current year findings

1. Fixed asset register and Uniform – Control Design

Finding	Currently no reconciliation is undertaken between Uniform and the fixed asset register to ensure that a complete listing of commercial properties is maintained. This reconciliation was being performed on regular basis until August 2011 however this ceased following the departure of the capital accountant.	
Risks	The Council has limited comfort that all properties are accounted for. This increases the risk that income is not maximised and property valuations are not accurately stated in the financial accounts.	
Action plan		
Finding rating	Agreed action	Responsible person / title
High N8	The Council has appointed a new Capital Accountant. Going forward the fixed asset register and Uniform will be reconciled on a quarterly basis.	Anna Winship Target date: 30 June 2012

2. Uniform and Agresso reconciliation- Control Design

Finding	
All income is raised for commercial property on the Agresso (General Ledger) system. There is currently no reconciliation performed between Agresso and Uniform to ensure that all the rented properties are being billed.	
It is understood that a full reconciliation of all property income was performed in 2010 and that the Council has plans to produce another reconciliation as part of the 2011/12 close down process.	
Risks	
The Council may not be billing all properties, increasing the risk that income is not maximised.	
Action plan	
Finding rating	Agreed action
Medium	Both finance and corporate assets are to review the reconciliation process to ensure that a formal reconciliation between Uniform and Agresso can be performed on a quarterly basis going forwards.
Responsible person / title	Pete Johnson and Richard Hawkes
Target date:	30 June 2012

3. Management information - Operating Effectiveness

Finding		
Monthly budget reports are produced for commercial property. No report was produced in August 2011. This was due to resource constraints.		
Risks		
Variances in budget may not be noted and investigated in a timely manner.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	Budget reports have been produced on a monthly basis since this date.	David Watt
		Target date:
		Implemented

4. Processing delays and Procedure Notes- Operating Effectiveness

Finding		
<p>In order to ensure income is maximised, accounts should be set up on Agresso immediately following agreement of a tenancy. The tenancy agreement outlines the date that billing will commence. Where possible, invoices should be raised in advance. The central income team are responsible for setting up accounts and billing tenants following receipt of a change note from corporate assets.</p> <p>In 4/5 new accounts tested, the income account was set up on Agresso over one month after the change note had been completed. The average processing time for this sample was 52 days. Delays were caused by both late and incomplete communication by the corporate asset team and untimely processing of change forms by finance.</p>		
Risks		
<p>Income may not be billed on a timely basis, leading to an increased risk that write offs may occur.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
High 31	Currently there is no formal procedure in place to outline the timescales for communicating change notes and processing invoices. A written procedure note will be put in place to reflect that change forms should be issued and bills raised within a set timescale (to be confirmed). In addition, a listing of what information should be provided with a change form will be included to avoid processing delays.	30 th June 2012 Target date: Richard Hawkes

5. Procedure Notes – Control Design

Finding		
There are no procedure notes in place to outline the process for agreeing and setting up new tenancies. Whilst there is a process in place, the information requested from tenants differs depending on the nature of the arrangement.		
Risks		
Adequate checks may not be performed on tenants before leasing properties.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	Local procedure notes are in the process of being drawn up to outline all processes within commercial property. The set up process will be covered in these documents.	30 th June 2012 Target date: <u>Richard Hawkes</u>




Appendix 1. Basis of our classifications

Individual finding ratings

Assessment rationale	
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
	Low risk	6 points or less
	Medium risk	7– 15 points
	High risk	16– 39 points
	Critical risk	40 points and over

Appendix 1: Terms of Reference

Oxford City Council

Terms of Reference – Commercial Property

To: Steve Sprason, Head of Corporate Assets

From: Katherine Bennett, Audit Manager

This review is being undertaken as part of the 2011/12 internal audit plan approved by the Audit and Governance Committee.

Background

Commercial Property Management is one of the responsibilities of the Corporate Asset department. Commercial property belonging to the Council is spread across the city centre and includes both Council-owned offices based in the city centre and at Oxford Business Park and Oxford Science Park and retail property located within the city centre and at out-of-town retail centres. Total external income from commercial property per the 2011/12 budget book is budgeted at £6,844,042.

This review seeks to understand and evaluate key controls surrounding commercial property income processes with the objective of ensuring that:

- the Council has a complete listing of all commercial property income sources;
 - commercial property tenants are invoiced in a timely, complete and accurate fashion; and
 - there are sufficient debt collection, recovery and write-off procedures in place to ensure that income collection is maximised.
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Scope

We will review the design and operating effectiveness of key controls relating to commercial property income during the period 2011/12.

The sub-processes and related control objectives included in this review are:

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Income collection	Debt collection, recovery and write-off procedures are sufficient to ensure that delay in receiving payments and loss of income is minimised Aged debt is reviewed on a regular basis Correct information on commercial property

Accounting for commercial property	income is fed into the Council's general ledger system
Completeness of commercial property income streams	Systems are in place to ensure all commercial properties owned by the Council are identified and billed
Management information	Exception reports are completed to highlight trends and unusual transactions

Limitations of Scope

The scope of our work will be limited to those areas outlined above.

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Katherine Bennett	Audit Manager
Charlotte Bilsland	Team Manager
Emma Flynn	Team Member

Key contacts – Oxford City Council

Name	Title	Role	Responsibilities
Steve Sparson	Head of Corporate Assets	Audit Sponsor	Review and approve terms of reference Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
Nigel Kennedy	Head of Finance	Receive draft and final reports
Jackie Yates	Corporate Director (Finance and Efficiency)	Receive final report
Peter Sloman	Chief Executive	Receive final report

metable

Fieldwork start	9 th January 2012
Fieldwork completed	16 th January 2012
Clearance Meeting	w/c 30 th January 2012 (TBC)
Draft report to client	By 6 th February 2012 (TBC)
Response from client	By 13 th February 2012 (TBC)
Final report to client	By 20 th February 2012 (TBC)

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation

Appendix 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the commercial property subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the commercial property review is for the 2011/12 year. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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