

**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVE DEPARTMENT**

**REVIEW OF COMMERCIAL PROPERTY RENTS AUDIT FOR 2014-15**

**Issued to:** Heather Hosking, Head of Strategic Property  
Neil Thompson, Principal Valuer - Management

**Prepared by:** Principal Auditor

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## REVIEW OF COMMERCIAL PROPERTY RENTS AUDIT FOR 2014-15

### INTRODUCTION

1. This report sets out the results of our systems based audit of Commercial Property Rents Audit for 2014-15. The audit was carried out in quarter 4 as part of the programmed work specified in the 2014-15 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 06/05/2015. The period covered by this report is from 01/04/2014 to 20/08/2015.
4. The budget for Properties held for investments was set to be £5,824,890 credit for 2015-16. The budgetary position as of July 2015 is £2,315,469 credit.

### AUDIT SCOPE

5. The scope of the audit is detailed in the Terms of Reference.

### AUDIT OPINION

6. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

### MANAGEMENT SUMMARY

7. A sample of 10 tenancies was selected from a schedule of the Council's main commercial property which is leased out. This included Green Belt (farms etc.). Information on Uniform system and Oracle system in respect of sampled properties was

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reviewed to ascertain that a signed Tenancy agreement was in place; Invoices have been raised and income has been collected; rent review has been undertaken as per the contract. Audit testing highlighted following issues

- **Information held on Uniform system is out of date for 2/10 tenancies reviewed as it was not promptly updated.**
- **Total income due may not have been invoiced for 1/10 tenancies.**

### **SIGNIFICANT FINDINGS (PRIORITY 1)**

8. There is no priority one finding.

### **DETAILED FINDINGS / MANAGEMENT ACTION PLAN**

9. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

### **ACKNOWLEDGEMENT**

10. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>A sample of 10 tenancies was selected from a schedule of the Council’s main commercial property which is leased out. This included Green Belt (farms etc.). Information on Uniform system and Oracle system in respect of sampled properties was reviewed to ascertain that a signed Tenancy agreement was in place; Invoices have been raised and income has been collected; rent review has been undertaken as per the contract. Audit testing highlighted that information held on Uniform system was not promptly updated for 2/10 tenancies reviewed.</p> <ul style="list-style-type: none"> <li>• Property A - The lease document was uploaded on to the Uniform system 9 weeks after the lease was completed.</li> <li>• Property B - Uniform records have not been amended to record rent reduction which was agreed 12 years ago, however the correct amount was invoiced. There is also a duplicate account on Uniform system for this property.</li> </ul>	Loss of income may occur due to out of date information	<p><b>Information on Uniform system should be amended promptly to ensure that it is an up to date repository of council's Commercial properties.</b></p> <p><b>Periodic reconciliation should be undertaken between expected income as per Uniform system and invoiced income to ensure all expected income has been correctly invoiced by Liberata.</b></p> <p><b>[Priority 3]</b></p>
2	Audit testing of the sample of 10 tenancies selected from a schedule of the Council’s main commercial property also highlighted that total income due may not have been invoiced for tenant in respect of property C.	Loss of income may occur due to failure to ascertain and invoice total income due.	<b>Enquires should be made annually with the tenant for leases where additional income may</b>

**Priority 1**  
**Required to address major weaknesses and should be implemented as soon as possible**

**Priority 2**  
**Required to address issues which do not represent good practice**

**Priority 3**  
**Identification of suggested areas for improvement**

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	Currently, the caution system on Uniform would flag up the need to check whether any further Licence fee was due to the Council at rent review in five years' time. This elapse time to ascertain and invoice income due is not satisfactory.		<p><b>become due during the course of lease to ascertain any additional income due.</b></p> <p><b>[Priority 2]</b></p>

**Priority 1**  
**Required to address major weaknesses and should be implemented as soon as possible**

**Priority 2**  
**Required to address issues which do not represent good practice**

**Priority 3**  
**Identification of suggested areas for improvement**

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p><b>Information on Uniform system should be amended promptly to ensure that it is an up to date repository of council's Commercial properties.</b></p> <p><b>Periodic reconciliation should be undertaken between expected income as per Uniform system and invoiced income to ensure all expected income has been correctly invoiced by Liberata.</b></p>	3	<p>This is already being undertaken. We do not accept the conclusion that you have come to with regard to property A</p> <p>The findings on property B are accepted.</p> <p>We already have regular meetings with Liberata to address this. A report of all invoices raised is being requested from the Finance team.</p>	Principal Valuer-Management	<b>Quarterly meetings</b>
2	<b>Enquires should be made annually with the tenant for leases where additional income may become due during the course of lease to ascertain any additional income due.</b>	2	Agreed. We are going to identify a list of tenancies where the rents vary annually or where there is the potential for additional rent to be paid between reviews, so that appropriate cautions are entered on to Uniform database system	Principal Valuer-Management	01/02/2016

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MANAGEMENT ACTION PLAN

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## OPINION DEFINITIONS

## APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

### **Assurance Level**

### **Definition**

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.