# Argyll and Bute Council Internal Audit Report November 2021 FINAL

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### 1. Executive Summary

#### Introduction

- As part of the 2020/21 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, we have undertaken an audit of Argyll and μ š } μ sv(th]eoQouncil) system of internal control and governance in relation to the Fixed Asset Register.
- 2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control, however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
- The contents of this report have been agreed with the appropriate council officers to confirm
  factual accuracy and appreciation is due for the cooperation and assistance received from all
  officers over the course of the audit.

#### **Background**

- 4. Fixed assets represent a significant financial sum in the balance sheet of the Council. These are capital items that have been acquired, constructed or developed such as land, property, ] v ( OE š OE μ š μ OE v À Z] o Á]š Z š Z ] v š v š] } v } ( ] v P μ• š } activities.
- 5. The Capital Plan is submitted to full Council as part of the budget setting process in February every year and identifies the areas of capital expenditure for the year ahead and estimates for the following two years. Funding for the capital plan comes from Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), other capital grants (including European Funding), capital receipts from asset disposals, revenue contributions to capital, prudential borrowing and borrowing funded by the loan charges provision in the revenue budget.
- 6. For the year 2021/22, the capital plan identified £61.1m of spend covering asset sustainability, service development and strategic change. Restricted funding of £7.3m is also included within this figure to cover grants/external funding for Roads & Infrastructure Service, Development & Economic Growth and major projects.
- 7. The Capital Plan also reports assets identified for disposal. As at February 2021 there were 22 assets relating to land and buildings listed.
- 8. Financial regulation FRS102 requires that all Councils report the true and fair value of fixed assets held in their annual accounts. The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of fixed assets. Charges are made to revenue accounts in respect of depreciation, revaluation and impairment losses of tangible fixed assets and amortisation of intangible fixed assets.

## 2. Objective and Summary Assessment

15. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 t Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Condusion
1	Procedures are in	All Risks	Substantial	Strategies and plans are prepared and
	place and logical			submitted to full council as part of the
	access is consistent			budget setting process each year.
	with user duties and			Policies and procedures are in place
	responsibilities			and responsibilities for asset
				management sit at an appropriate
				level. AIRSis the system used to
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				register and access to the system is
				controlled. One member of staff has
				moved to a different role within
				financial services but their access to
				AIRS has been maintained for business
				continuity purposes. However, there is
				currently no periodic review of access rights to AIRS.
2	The Fixed Asset	Audit Risk	Reasonable	The AIRS asset management system
	Register is an	3 & 4		generates asset reference numbers
	accurate list of			and has appropriate fields for
	assets held by the			recording assets, disposals and
	Council			acquisitions. Records were correctly
				recorded, however it was difficult to
				locate some items due to
				inconsistencies in descriptions used
				between AIRS and records held by
				services.

		were found to be incorrectly stated on
		the asset register.

4 Fixed Assets are correctly reflected in

Items on the Fixed Assets Register correctly reflect completion status, value, depreciation and asset life

- 33. In compliance with Council policy and procedures, there is a 5 year rolling programme of asset valuations for land and buildings held by the Council. Investment properties, surplus assets, and non-current assets available for sale are valued annually, additionally any assets where spend is over £100k in the year are also revalued, all other asset categories are recorded at historic cost and are not subject to revaluation. There is a service level agreement in place between estates services and financial services which outlines the process to be followed in reaching a valuation decision. Additionally Estates service provide a list of re-valued assets to Financial Services along with copies of the valuation certificates.
- 34. A sample of 20 assets was selected for review from the valuation lists to ensure that they were scheduled for revaluation in 2020/21. Seventeen assets were identified as due for revaluation on the rolling programme and although not included in the programme, the remaining 3 assets were appropriately revalued due to a change in status. AIRS was appropriately updated to take account of the revaluation for all but one componentised element of an asset, this was an error of transposition and has now been rectified. All revaluations require to be adjusted manually on AIRS as part of the year-end process, this task requires a large volume of input over a very short period of time thus increasing the risk of error. A reconciliation exercise between the general ledger and AIRS is undertaken to mitigate this as it is not possible to automate the process at the current time.
- 35. The Council has 41 piers and harbours identified as assets and these were considered in terms of revaluation. The RICS Valuation Global Standards 2017: UK national supplement issued November 2018, effective from 14 January 2019 covering all asset types was reviewed and this states that infrastructure assets should be recorded at historical cost. Piers and harbours are pecifically stated, however, the current practice of recording at historic cost is considered correct and there is no requirement to reflect fair value in the financial statements.
- 36. Each asset entered to the AIRS system is allocated an asset type which includes the associated expected useful life, however, in exceptional circumstances, where the useful life applied is not

40. A sample of 5 assets under construction was selected for review and project managers contacted to confirm the current status, one was ongoing but the remaining four had been completed some time ago and were duplicated in other asset groups on AIRS using different asset reference numbers. There is no financial implication as the NBV of the assets under construction category is zero.

Action Plan 6

41. The fixed asset register (AIRS) was reviewed to assess if depreciation was appropriately applied. There are 4,858 assets recorded in AIRS, four of these were found to have negative NBV totalling £4,321.72, indicating that depreciation had been overcharged however these

and also by Audit Scotland as part of the external audit, however, there is no evidence that this review has taken place.

Action Plan 7

# Appendix 1t Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	System Users  One member of staff has retained access to the AIRS for business continuity purposes following a move to a new role within financial services, however there is no periodic review of access rights to AIRS to ensure access remains appropriate.	Users may not have been appropriately authorised to gain access to the system or may retain access to privileged information when no longer		

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	4	Negative Values  There is no setting within AIRS to alert the user that negative values have been calculated and recorded.	Assets may be incorrectly recorded on the fixed asset register.	Procedures will be updated to include annual review to identify and promptly rectify negative values.	

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition		
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# Appendix 2t Audit Opinion