

Aberdeen City Council

Corporate Landlord Responsibilities

Internal Audit Report
2014/2015 for Aberdeen
City Council

April 2015

	Target Dates per agreed Internal Audit Charter	Actual Dates	Red/Amber/Green and commentary where applicable
Terms or reference agreed 4 weeks prior to fieldwork	5 th January 2015	22 nd January 2015	Amber – Delayed due to Christmas and New Year break.
Planned fieldwork start date	2 nd February 2015	2 nd February 2015	Green
Fieldwork completion date	13 th February 2015	13 th February 2015	Green
Draft report issued for Management comment	6 th March 2015	7 th March 2015	Green - Target date adjusted for Chief Internal Auditor annual leave
Management Comments received	20 th March 2015	27 th April 2015	Red – Due to ongoing discussions between management and internal audit on agreed actions



Report finalised	4 th May 2015	28 th April 2015	Green
Submitted to Audit and Risk Committee	11 th May 2015	11 th May 2015	Green



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Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

Report classification	Total number of findings					
	Critical	High	Medium	Low	Advisory	
Medium	← Section 3 →					
	Control design	-	1	1	1	-
	Operating effectiveness	-	-	-	-	-
	Total	-	1	1	1	-

Summary of findings

- 1.01 Aberdeen City Council is currently undertaking a ‘Smarter Working’ programme across all services to promote and develop better working practices and produce cost efficiencies. In alignment with the objectives of ‘Smarter Working’, there are current considerations to have a ‘corporate landlord’ function to provide a consistent approach to the management of the Council’s property portfolio from a senior management level. Having a consistent strategic approach for the management of such assets allows for the property portfolio to be fully optimised through improved utilisation.
- 1.02 For each of the properties held by the Council, there are statutory requirements that must be fulfilled to allow the properties to continue to be operational. These requirements cover electrical areas (circuit wiring testing, portable appliance testing), plant (boilers, lifts, refrigeration) and fire safety (alarms and firefighting equipment). Additionally there are requirements to test for legionella and conduct asbestos surveys.
- 1.03 The scope of our review was to assess how the Council currently manages its property portfolio. In the course of our review we have identified one high risk, one medium risk and one low risk finding.

High Risk Finding

- 1.04 The ‘Corporate Landlord’ process is not being followed within the Council. Independent directorates are making autonomous decisions about property assets. Property is not currently being viewed as a corporate asset of the Council, with service areas potentially being reluctant to share assets to mitigate the risk of failing to meet their own programmes. The current structure in place is not in alignment with suggested practice outlined by the Chartered Institute of Public Finance and Accountancy (CIPFA). Information on property utilisation is only being held for office buildings and schools. This is in part a result of there being no defined measurements of utilisation for the other property assets and no property board that has the authority to make decisions based on any information

collected.

Medium Risk Finding

- 1.05 There is a lack of communication between Hard Facilities Management (HFM) and Building Services (BS) around who has responsibility for auditing and verifying that statutory compliance activities have been performed. Lack of oversight has the potential for non-statutory compliance and physical danger to those on site. All certifications of statutory compliance are intended to be stored on a shared network drive between HFM and BS. Currently there are no controls in place to ensure that Inspectors are keeping the drives up to date with the latest documentation. A rota exists for inspectors from BS to visit properties and ensure contractors are performing the work. At the moment however, there is no alignment between when inspectors are visiting properties and the schedule of the external contractors. Building services are only providing key performance indicators for work they have performed themselves. No summarised KPI's are being provided to HFM for external contractors that would allow them to assess the progress of statutory compliance.

Management comments

Whilst the Asset Management team had attempted to establish a 'Corporate Landlord' role in the Council, it is clear that the benefits and rationale behind the function needs to be communicated more clearly in order to progress further. This will help develop awareness, amongst other things, of statutory health and safety compliance and help ensure clear lines of responsibility are understood by all in the Council, with external contractors and with customers/tenants.

The Service is currently establishing the principles of the Corporate Landlord function, which will be communicated across the council in the next year.

2. Background and scope

Background

- 2.01 Aberdeen City Council owns a wide portfolio of land and property assets for which it is responsible. Maximising the utilisation and ensuring the proper maintenance of its land and property assets are therefore critical to the Council in ensuring it is able to deliver services and best value for money to the public.

Strategic Asset Management

- 2.02 *Role of the corporate landlord*

Formerly, a similar role of the proposed 'corporate landlord' function was held by the Corporate Asset Group. This was composed of members of staff at the head of service level. Due to the current restructuring programme, this group has been disbanded and no steering group is currently in place. At present, the management of property assets is being carried out by the relevant individual directorates.

- 2.03 *The current property portfolio*

At present, the Council holds 314 properties that are classed as operational. These properties can be grouped into 12 different categories based on their function and primary use. Information on these properties is held within the Council's information system called 'Uniform'. The system is independent from those used by the different lines of service and no interfacing of data takes place. For each property, Uniform holds information on: the physical area; the valuation; operational costs and the outcomes of condition surveys.

Properties within the portfolio are subject to revaluations over differing time periods dependent on the age and utility of the asset. It is intended that properties are, however, revalued within a five to ten year period. Properties are also subject to regular conditioning surveys which help in the process of evaluating where future investment should be placed.

Statutory Compliance

- 2.04 *Responsibility for compliance*

Under the current structure of the Council, it is the responsibility of Hard Facilities Management (HFM) to ensure the compliance with statutory requirements for the repair and maintenance of properties. Nearly all of the work is however outsourced to the Council's Building Services (BS) function. Although Building Services is another function of the Council, they are treated as if they are external contractors. BS however, in turn, subcontract nearly all the work to third parties

with established contracts already being in place and they do not have the resources to carry out the work themselves. The work performed by BS on behalf of HFM is charged to the 'repairs and maintenance' budget. On a monthly basis, HFM hold meetings with building services to hold them accountable for ensuring that the statutory work is being performed.

2.05 *Building Services Operations*

Building services manage the contractors and their compliance in two ways: firstly, by agreeing annual programmes so that all future works requirements are outlined and agreed for specific dates; and secondly, there are a team of inspectors who visit the council's property assets to ensure that the contractors have performed the work. Inspectors physically examine buildings and review completed log books of site visitors. The frequency of the visits to the differing buildings across the portfolio depends on their nature. A rota is currently in place that notifies when inspectors are expected to have visited specific buildings.

Responsibility for ensuring that the council retains all of the relevant documentation as evidence of complying with statutory requirements lies with Building Services. At present there is a shared central network drive where all resources are intended to be shared between HFM and BS. Within the shared drive there are property files where it is intended that all of the certifications are stored after they have been received. A central storage place ensures sharing of resources and allows for transparency across the separated service areas.

2.06 *IT Structure*

There are currently two different IT systems that are being used to procure and process works related to statutory compliance or planned maintenance. Firstly, there is Confirm which is used by the HFM team and the service desk team. Secondly, there is the Total system (referred to internally as Consilium) which is used by the building services team for all the work they perform, including non-statutory jobs. For works that are contracted out to BS from HFM, the work order is interfaced from the Confirm System to the Consilium system. For works to be performed by external contractors and not BS, the order bypasses the Consilium system altogether. The invoices from external contractors are received by the service help desk within Confirm and processed via batch into efinancials. These systems are independent from the Uniform system used by the asset management team.

Repairs, Maintenance and Capital Investment

2.07 *Capital Investment*

The current investment programme in place is called the conditions and suitability plan. This contains the proposed projects which are to be undertaken in the forthcoming year. The plan is submitted to the sub-property committee for approval. Oversight of the plan is undertaken by a capital review group who monitor the progress of the projects against projected spend and timescales.

2.08 *Planned Maintenance and repairs*

Planned maintenance is the non-statutory work carried out by building services on behalf of Hard Facilities Management (HFM). This type of work relates to the upkeep of buildings to prevent degradation and potentially reduce future capital costs. A planned maintenance programme is currently produced on a yearly basis

by HFM who typically look to schedule maintenance in alignment with other works taking place in buildings at the same time.

Scope and limitations of scope

- 2.09 The detailed scope of this review is set out in Appendix 2. We have undertaken a review of the design and operating effectiveness of the Council's corporate landlord controls.

3. Detailed findings and recommendations

3.01 No corporate oversight of property assets currently exists – Control design deficiency

Finding

The Corporate Landlord process is not being followed within the Council. Individual directorates are making property asset decisions which are independent of the other services areas. The Council's budgeted 'premises costs' for 2015/16 are £60million, highlighting the need for the council to consider their current asset management practices.

At present there is a service-led approach to asset management with regards to the structure of personnel. For example, schools are approximately 55% of the council's property portfolio, based on floor area, and yet they have their own property management team who are autonomous from the Council's central asset management team. This highlights the lack of central oversight or decision making ability for all property assets can currently be undertaken. Property is not currently being viewed as a corporate asset of the Council, with service areas potentially being reluctant to share assets to mitigate the risk of failing to meet their own programmes.

Information on property utilisation is only currently being held for office buildings and schools. For office buildings, the information is readily available and is currently being used to monitor the progress of the 'smarter working' programme. Information on schools is also readily available as there are requirements to report this information to the Scottish government. This is primarily a result of having no defined utilisation indicators for other property assets and lack of central function to act on this information.

The Chartered Institute of Public Finance and Accountancy (CIPFA) suggest the use of a centralised management function for property assets. CIPFA advocate that such a function allows individual service areas to focus on their own service delivery, improves cost efficiencies and eliminates any duplication that exists across directorates. In areas of dispute over investment or utilisation, the Corporate Landlord function is determined to possess the authority to make the final decision in the best interests of the organisation as a whole.

Risks

The Council is not able to provide the best value for money through inefficient utilisation of the property portfolio.

Lack of corporate authority prevents asset management decisions from benefiting the entire Council.

Action plan		
Finding rating	Agreed action	Responsible person / title
High	<p>(1) The Council will consider implementation of elements of suggested practice from CIPFA.</p> <p>(2) The Council will review the appropriateness of their internal structure.</p> <p>(3) For each property type, standard indicators of utilisation should be agreed to allow for benchmarking and evaluation of value for money.</p> <p>(4) Schedules of reporting on the agreed asset utilisation information should be arranged with the different service areas.</p>	<p>Pete Leonard (Director of Community and Infrastructure Services)</p> <hr/> <p>Target date:</p> <hr/> <p>May 2016</p>

3.02 Insufficient oversight of statutory compliance exists – Control design deficiency

Finding

There is a lack of communication between Hard Facilities Management (HFM) and Building Services (BS) as to who is responsible for auditing and verifying that statutory compliance activities have been performed. Lack of oversight has the potential for non-statutory compliance and can be pinpointed to three main areas:

Evidence of Compliance

It is currently intended that all certifications that evidence the Council's compliance with statutory requirements are held on a network drive which is shared between HFM and BS. At present, there are no controls in place to ensure that inspectors are uploading the required certificates to the shared drive for HFM to confirm compliance.

Reporting on Key Performance Indicators

Building services are only providing key performance indicators for work they have performed themselves. No KPI's are being provided to HFM for external contractors that would allow them to assess the progress of building services in ensuring statutory compliance is being met. Although BS working papers are available on individual contractors, these are not suitable for the purpose of reporting to management.

Misalignment of checks on third party performance of the statutory works

Building services agree programmes of work with external contractors for upcoming months to ensure statutory compliance. Currently they have a rota for inspectors to visit properties and ensure this is happening. At the moment however, there is no alignment between when inspectors are visiting properties and the schedule of the external contractors.

Certificates of completed works are typically received from contractors at least two months after the planned works has finished. Therefore well-timed inspections are vital to ensure statutory requirements are being performed in the correct time period.

Risks

Health and Safety risks for individuals using the Council's property.

Significant periods of time may pass between the expected completed date of the statutory work and the inspection by Building Services.

No oversight over contractors could lead them to performing the work after the required statutory period.

Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	<p>(1) HFM will gain access to the programme of works used operationally by BS and assign a team member to ensure that after the appropriate time period, certifications have been uploaded into the shared drive.</p> <p>HFM will hold BS accountable for certifications which are not stored correctly.</p> <p>(2) An agreed pro-forma report should be outlined which specifies the exact KPI's that HFM are intending to receive. This would include summary headline statistics for each supplier that enables appropriate oversight.</p> <p>This report should be produced for HFM before BS holds their monthly meetings with them.</p> <p>(3) External contractor work schedules will be integrated into the creation of inspector rota's to ensure timely visits are made.</p> <p>Records of inspector's confirmation of contractor compliance on site visits should be stored on the network drive which is shared with Hard Facilities Management.</p>	<p>Ian Cowling (Hard Facilities Management)/ Scott Mathieson (Building Services)</p> <hr/> <p>Target date:</p> <p>May 2016</p>

3.03 Complexity in the IT structure and incorrect cost allocation among centralised budgets – Control design deficiency

Finding

The council's currently fragmented approach to asset management is reflected in the current IT structure. The asset management team use Uniform; Hard Facilities Management use Confirm; and Building services use Total (internally referred to as Consilium). The degree of integration across the systems differs. For Uniform, which essentially acts as a fixed asset register, there is no integration at all. Items such as service costs from work performed by the Council are manually input into the system.

Between Consilium and Confirm, interfacing of data has been set up to allow the different departments to use different systems. There is however problems with this interfacing process which can be best described below by understanding the business processes.

At present, it is intended that all work orders for buildings are raised through Confirm. The correct budgets that the order should be charged to are added to the order.

If building services are to use an external contractor to perform the work on their behalf, they raise a paper order from Confirm and this is sent to the supplier. When the work is completed, an invoice is received by the service desk staff who process this into Confirm against the original order and add it to a batch for processing into eFinancials. This whole process is error free because it bypasses Consilium, and Confirm processes the costs against the correct budgets.

If building services, however, perform the work themselves, the order is interfaced from Confirm into Consilium. The problem, however, is that the budget codes raised with the order on Confirm are not being interfaced into Consilium. Therefore when the work is completed, Building Services don't know which costs should be allocated against which budget when they are batched in eFinancials. The current approach is to charge all of the costs against the 'Repairs and Maintenance' budget. A member of the Hard Facilities Management team then has to manually sit through all of the transactions to identify which costs should be allocated to different budgets.

Additionally, as a result of finalised costs being interfaced from Consilium to eFinancials directly, the information on the Confirm system is not accurate as this still holds the estimated costs as opposed to the actual costs from the completed job.

Risks

Inconsistent data is held across all of the systems.

Inaccurate budgets may make it difficult to monitor spending.

Increased difficulty in providing oversight of the property portfolio due to the segregation of information systems.

Action plan		
Finding rating	Agreed action	Responsible person / title
Low	<p>(1) The Council should perform an assessment on whether they could achieve their asset management goals across a smaller number of systems.</p> <p>(2) The Council should consider developing an interfacing process from Consilium to Confirm before finalised costs are batched into eFinancials. This would prevent incorrect cost allocation to budgets.</p>	<p>John Quinn (Head of Land and Property Assets)</p> <hr/> <p>Target date:</p> <p>May 2016</p>

Appendix 1 – Agreed Terms of reference

Background

Aberdeen City Council owns a wide portfolio of land and property assets for which it is responsible. Maximising the utilisation and ensuring the proper maintenance of its land and property assets are therefore critical to the Council in ensuring it is able to deliver services and best value for money to the public. Adopting a ‘corporate landlord’ approach is intended to give the Council the necessary overview, at a senior management level, of the land and property assets it owns, how they are utilised and how they are maintained. The Council must also ensure that it is properly discharging its statutory duties as a landlord and complying with all relevant laws and regulations.

Scope

Sub-process	Control Objective
Statutory Compliance	<ul style="list-style-type: none">• Responsibility for ensuring the Council discharges its statutory duties as a landlord are assigned appropriately.• Complete and accurate records are maintained to evidence the Council has discharged its statutory duties as a landlord. These records are accessible and can be used to facilitate management reporting.• Statutory duties are fulfilled in a timely manner and monitoring exists to identify where exceptions occur.• Management report on performance in meeting statutory requirements and take action when deficiencies are identified.
Corporate Assets and Strategic Asset Management	<ul style="list-style-type: none">• Roles and responsibilities for managing the Council’s land and property assets are clearly defined.• A strategic group (board/committee) oversees and challenges asset management decisions.• Complete and accurate records are maintained of all land and property assets owned by the Council, including comprehensive asset management data. These records are accessible and can be used to facilitate management reporting.• The Council has a corporate view of how each of its land and property assets is being

utilised and a plan for how best to utilise those assets.

- Asset utilisation is monitored and updated on an ongoing basis.
- Decisions on asset utilisation are taken at a corporate level with service and stakeholder input.

Repairs, Maintenance and Capital Investment

- A corporate maintenance and investment strategy is in place and performance in achieving the strategy objectives monitored and reported on appropriately.
 - Planned maintenance and investment programmes that help achieve the strategy are in place and these are proactively monitored by management.
 - Centralised budgets, which are appropriately prioritised, exist, with performance against budget reviewed and monitored on an ongoing basis.
-

Limitations of scope

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.

Audit approach

- Obtain an understanding of the procedures in place through discussion with key personnel, review of documentation and walkthrough tests where appropriate.
- Identify the key risks in respect of monitoring compliance with laws and regulations
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls on a sample basis.

Appendix 2 – Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of Corporate Landlord Responsibilities, 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 Corporate Landlord Responsibilities is as at February 2015. 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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