ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	25 September 2018
REPORT TITLE	Internal Audit Report AC1823 – Fixed Asset Register
REPORT NUMBER	IA/AC1823
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the planned Internal Audit report on the Fixed Asset Register.

2. RECOMMENDATION

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

3.1 Internal Audit has completed the attached report which relates to an audit of the Fixed Asset Register.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

9.1 Internal Audit report AC1823 – Fixed Asset Register.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Finance

Fixed Asset Register

Issued to:

Steven Whyte, Director of Resources
Sandra Buthlay, Interim Chief Officer - Finance
Fraser Bell, Chief Officer - Governance
Carol Smith, Accounting Manager
Lesley Fullerton, Finance Operations Manager
External Audit

Date of Issue: August 2018 **Report No. AC1823**

EXECUTIVE SUMMARY

The fixed asset register (FAR) is used to record the Council's non-current assets, which include: council dwellings; other land and buildings; vehicles, plant and equipment; infrastructure assets; community assets; surplus assets, assets held for sale; assets under construction; investment properties; heritage assets and intangible assets. Assets are recorded in the Logotech AIRS Fixed Asset Management System. As at 31 March 2018, the total value of assets held in the fixed asset register was £2.663 billion. The value as at 31 March 2017 was £2.502 billion.

The objective of this audit was to consider whether procedures for ensuring timely recording of the acquisition / disposal of assets are adequate, revaluations are undertaken in accordance with recognised best practice, that a sample of recorded assets exist and those assets that should be recorded are.

In general this was found to be the case, with the fixed asset register reconciling clearly to the Annual Accounts, sampled assets recorded in the FAR existing, sampled assets that should be recorded included in the FAR, and disposals and impairments being accounted for correctly.

Recommendations have been agreed to: improve written procedures; investigate accounting errors relating to the revaluation reserve; and reconcile the ledger to the fixed asset register, after introducing asset category balance sheet codes and recording capital accounting transactions in the general ledger, currently applied to the Annual Accounts via manual adjustments.

It was noted that prior year adjustments have not been made for negative addition balances, relating to the removal of prior year expenditure, where values are immaterial. The Service has agreed to update review procedures for the FAR to identify negative additions and make appropriate corrections where values are material.

1. INTRODUCTION

1.1 The fixed asset register (FAR) is used to record the Council's non-current assets, which include: council dwellings; other land and buildings; vehicles, plant and equipment; infrastructure assets; community assets; surplus assets, assets held for sale; assets under construction; investment properties; heritage assets and intangible assets. With the exception of intangible assets, these assets have physical substance, are expected to be retained in use for more than one financial year and will be recognised in the Council's financial accounts. They may also be depreciated and be subject to revaluation, on a periodic basis, in line with the Council's accounting policies.

1.2 Assets are recorded in the Logotech AIRS Fixed Asset Management System. As at 31 March 2018, the total value of assets held in the fixed asset register was £2.663 billion. The value as at 31 March 2017 was £2.502 billion.

1.3 The objective of this audit was to consider whether procedures for ensuring timely recording of the acquisition / disposal of assets are adequate, revaluations are undertaken in accordance with recognised best practice, that a sample of recorded assets exist and those assets that should be recorded are.

1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Carol Smith, Accounting Manager and Lesley Fullerton, Finance Operations Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Policy and Procedures

2.1.1 The Council is required to prepare Annual Accounts under the Local Authority Accounts (Scotland) Regulations 2014. In addition, section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices include the CIPFA Code of Practice on Local Authority Accounting in the UK (the Code) and the Service Reporting Code of Practice (SeRCOP), which are underpinned by International Accounting Standards. The Council must also ensure prompt disclosure to the market of the approval of the Annual Accounts, as a consequence of having issued Bonds on the London Stock Exchange, in order to comply with the Market Abuse Regulation and FCA Disclosure and Transparency Rules.

2.1.2 The accounting policies adopted by the Council in relation to non-current assets, for the preparation of the 2017/18 Audited Annual Accounts, as reported in notes to the accounts, are in accordance with the 2017/18 Code.

2.1.3 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.

2.1.4 Written procedures for Fixed Asset Register maintenance were obtained and reviewed. Although these cover all aspects of updating the asset register once all relevant information has been received, and are available to key personnel, they do not include the sources of external information required to update the FAR, such as revaluation reports received from Corporate Landlord.

2.1.5 It was noted that whilst the Capital in Revenue procedure describes the process of reviewing revenue expenditure for transactions which require to be capitalised, it does not explain that the threshold is £6,000 for capitalising revenue transactions, as stated by the Service, and it does not explain the reasons transactions would and would not be capitalised.

Recommendation
The Service should expand written procedures to include any external information required and the sources of that information.

The Service should update the Capital in Revenue procedure to include the threshold for review and the reasons why revenue transactions above this threshold would and would not be capitalised.

Service Response / Action
Part 1: Agreed.

Part 2: Agreed.

Implementation Date	**Responsible Officer**	**Grading**
Part 1: September 2018	Finance Operations Manager	Important within audited area
Part 2: December 2018		

2.2 Additions

2.2.1 Acquisitions of fixed assets are processed by Corporate Landlord and Governance for Land and Buildings. Assets are initially recorded on the Uniform Asset Management System within Corporate Landlord, and title is recorded and stored by Governance. Finance is advised of acquisitions by Corporate Landlord. Finance also review capital expenditure posted to the ledger to identify any additions not notified to them by Corporate Landlord.

2.2.2 The cost of a property, or item of plant and equipment is recognised if it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Costs include initial costs of acquisition and construction and those incurred subsequently to add to or replace part of the asset. Subsequent costs arising from day to day repairs and maintenance should not be capitalised as they do not add to the future economic benefits or service potential of the asset, rather the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.

2.2.3 A sample of 30 purchases as at 31 March 2018 across a range of capital budgets recorded in the ledger was selected, to confirm that items of a capital nature had been included in the FAR in a timely manner, in line with accounting policy and the Code. Additions were included in the FAR as expected.

2.2.4 A sample of 40 additions across all non-current asset categories was selected from the FAR between April 2017 and March 2018, to confirm that they are appropriate for use in the Council's activities and had been capitalised in a timely manner, in line with the Council's accounting policy and the Code. This was found to be the case, however it was noted that 2 Land and Building additions and 1 Vehicle, Plant and Equipment addition had negative values totalling £153,183. The negative values are due to credits relating to the removal of prior year expenditure and as such should be recorded as a prior year adjustment rather than in the current year. Whilst not material in relation to the Annual Accounts, these balances could have been identified and corrected by reviewing the additions column of the FAR for any negative values.

Recommendation
The Service should review the FAR for negative additions and make appropriate corrections at year-end.

Service Response / Action
The Service has agreed to update review procedures for the FAR to identify negative additions and make appropriate corrections where values are material.

Implementation Date	**Responsible Officer**	**Grading**
March 2019	Finance Operations Manager	Important within audited area

2.2.5 Updating of the Fixed Asset Register was due to move from an annual process to a quarterly one starting with the quarter to 31 December 2017. Internal Audit was advised that the process would be complete by 31 January 2018 at which point testing on 2017/18 data could be completed. However, the Service did not receive the final valuation reports from Corporate Landlord, required to update the FAR, until 6 April 2018, despite the valuations being as at 30 November 2017.

Recommendation

The Service should liaise with the Corporate Landlord to establish a mechanism for the timeous transfer of data required to update the fixed asset register.

Service Response / Action
This was the first year of the new process of Faster Close of the Annual Accounts and there were significant changes to timetables for transfer of data from Corporate Landlord to Finance. Corporate Landlord worked closely with Finance to meet the new dates. This has been reviewed as part of the Faster Close process and agreement has already been made to ensure valuation reports will be received timeously in future. Corporate Landlord have agreed to provide valuation reports required to update the fixed asset register 2018/19 valuations by 31 December 2018.

Implementation Date	**Responsible Officer**	**Grading**
Implemented	Finance Operations Manager	Significant within audited area

2.2.6 Finance has set a threshold to capitalise revenue expenditure if the expenditure exceeds £6,000 and adds value to an asset. 10 revenue transactions which exceeded the £6,000 threshold were selected from repair and maintenance revenue budgets to determine if they had been capitalised where appropriate, in a timely manner, in line with the accounting policy and the Code. The transactions were assessed by the Service and deemed not to add value to the fixed assets they related to. This treatment was reasonable.

2.3 Disposals

2.3.1 The carrying amount of an item of property, plant and equipment should be derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

2.3.2 Assets Held for Sale are marketed by Corporate Landlord, with all sales being concluded by Governance. Corporate Landlord advises Finance of non-current asset disposals by way of a completion memo following the conclusion of a sale. Finance also review capital receipts posted to the ledger to identify any disposals not notified to them by Corporate Landlord.

2.3.3 The Code requires that the carrying amount of an asset should be derecognised on disposal, or when no future benefits are expected from its use. The gain or loss on disposal should be included in the Surplus or Deficit on the Provision of Services. Capital receipts should be credited to the Capital Receipts Reserve, and can only be used for new capital investment, or to reduce the Council's underlying need to borrow.

2.3.4 A sample of 10 non-current asset sales receipts per the financial ledger was selected to confirm if they had been removed from the FAR in a timely manner and accounted for in line with the accounting policy and the Code. This was found to be the case.

2.3.5 The capital ledger was reviewed in April 2018 to determine if any receipts had been received to ensure the disposals were recorded in the Fixed Asset Register in the correct financial year. Disposals relating to April 2018 had not been recorded in the fixed asset register as at 31 March 2018 as expected.

2.4 Revaluations and Impairment

2.4.1 The revaluation of land and buildings is carried out on a five-year rolling cycle, with the exception of investment properties, assets held for sale and surplus assets which are revalued on an annual basis. Vehicles, plant and equipment, infrastructure assets, and community assets are carried at historical cost, and are not subject to revaluation. Corporate Landlord maintains a schedule of revaluations to ensure all relevant assets are revalued within the five-year cycle, and provides Finance with an interim revaluation report, and then a final revaluation report to allow for the FAR to be updated.

2.4.2 A schedule is maintained by Corporate Landlord of all asset categories and when they are due to be revalued. The schedule and Annual Accounts for the past 5 years was reviewed and all asset categories had been valued as expected.

2.4.3 The Code requires that revaluations should be accounted for in the revaluation reserve, unless the revaluation is a reversal of a previous impairment loss, or is a reversal of a previous revaluation decrease on the same asset, whereby a subsequent gain is credited to the Comprehensive Income and Expenditure Account (CI&ES). The revaluation credited to the CI&ES should be limited to the extent of the previous impairment loss or revaluation decrease, with the balance above the depreciated historical cost being credited to the revaluation reserve.

2.4.4 A sample of 25 revaluations (15 upward, 10 downward) as at 30 November 2017 was reviewed to ensure that the revaluations had been accounted for in line with the Code and the Council's accounting policy. All assets were reflected correctly in the fixed asset register, however it was noted that the revaluation reserve was incorrect for 8 assets since the net book value movement due to the revaluations did not agree to the movement in the revaluation reserve as expected. The combined error for the 8 assets of £163,000 is not material in relation to the Annual Accounts, however the problem is recurring and appears to relate to the reversal of depreciation charged to the revaluation reserve.

Recommendation
The Service should investigate the revaluation reserve errors and update procedures to avoid in future.

Service Response / Action
Agreed.

Implementation Date	**Responsible Officer**	**Grading**
March 2019	Finance Operations Manager	Significant within audited area

2.4.5 In the event that an asset is damaged, the value of that asset should be impaired in order that its carrying value reflects the reduced economic benefit the asset provides. On an annual basis, Finance requests a record of assets that have incurred an insurance loss to allow for the asset value to be adjusted in the FAR. Impairment losses should be charged to the revaluation reserve to the extent they do not exceed the revaluation reserve value for the same asset and thereafter in the Comprehensive Income and Expenditure Statement (CI&ES). A review of the insurance loss return submitted to the Service for 2017/18 indicated that Cordyce School is to be closed and demolished after a fire. The asset had been removed from the fixed asset register and the loss has been correctly accounted for in the CI&ES.

2.4.6 In addition to any insurance losses, Corporate Landlord carries out a review of all assets. An annual declaration is issued by the Service, which is completed and returned by the Chief Officer – Corporate Landlord to allow Finance to update the FAR. The 2017/18 annual declaration, submitted to Finance in February 2018, also reported the impairment in relation to Cordyce School.

2.5 Physical Verification of Assets

2.5.1 A sample of 10 Council non-current assets was selected from a range of locations, physically verified and agreed to the FAR to establish the completeness of the assets recorded on the FAR. A sample of 10 assets was then selected from the FAR and verified to the physical assets, to establish whether the assets existed and were in use. No exceptions were noted.

2.6 Reconciliations

2.6.1 To gain assurance over the integrity of system data it is important that the FAR be reconciled to the financial ledger and the Financial Statements. The Service advised that the fixed asset register is not reconciled to the ledger. This is due to the fact year-end accounting entries such as depreciation and revaluations are currently manually reflected in the Accounts and are not included in the ledger.

Recommendation
Accounting transactions should be reflected in the ledger.

The ledger should be reconciled to the fixed asset register and Financial Statements.

Service Response / Action
Agreed.

Implementation Date	**Responsible Officer**	**Grading**
April 2019	Finance Operations Manager	Significant within audited area

2.6.2 Corporate Landlord operates a separate asset register for their Service, to manage the Council's land and buildings, including Housing Revenue Account properties. It was recommended in Internal Audit report AC1714 that the Uniform asset register maintained by Corporate Landlord be reconciled to the Finance AIRS fixed asset register. The Service reconciled the systems as at 30 August 2018 with the assistance of Finance.

2.6.3 The Finance FAR was reviewed to ensure that it matched values stated in the Audited Annual Accounts for Plant, Property & Equipment, Heritage Assets, Investment Property and Assets Held for Sale as at 31 March 2018. Both records were in agreement.

AUDITORS: D Hughes
A Johnston
N Ritchie

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.