

Audits

Audit: Commercial Property Portfolio 2023/24

Introduction:

The council's commercial property portfolio consists of nine properties, with the value of the portfolio totalling £59.5m and generating a return of £3.4m (5.7%) to support the council's base budget. The creation of the portfolio was well governed with Member engagement and approval.

The audit scope included the management of the properties by the Asset Management team, ensuring the correct lease charges have been raised and key terms and conditions of lease arrangements are adhered to.

Risk identified:	Level of Control:	Overall opinion:	Recommendations:
<p>Operational</p> <p>OP1: Appropriate governance arrangements are not in place to ensure regular and satisfactory oversight of the commercial property service, leading to the opportunity to identify issues and take timely action, being minimised.</p> <p>OP2: Properties may not be insured, leading to loss or damage to a Council held asset.</p>	Substantial	<p>Assurance was obtained during the audit that the governance arrangements in respect of the council's commercial property portfolio are sound. The audit found the portfolio to be administered by experienced staff and, in addition to this, this is supported by independent advice which is sought as appropriate. For example, the council receives a quarterly review of its properties from independent experts, the reports for which were evidenced during the audit.</p> <p>All commercial properties are let on long leases, of between 5 and 21 years, which offers stability to the Council in terms of both the receipt of rental income and the appreciation of capital values over the long term. There were no voids in the portfolio at the time of the audit and this has been the case since August 2022.</p> <p>Performance in respect of the commercial properties is reported formally to Overview and Scrutiny Committee and the Executive Committee through quarterly budget monitoring. The Lead Member is also provided with regular updates on commercial properties during portfolio briefings.</p> <p>The audit established that roles and responsibilities are clear, and that the work undertaken by the Asset Management team is largely led by the terms of the leases. Audit testing confirmed that these terms, such as payment of rent and service charges etc, are all appropriately recorded and monitored.</p> <p>The audit also reviewed the insurance arrangements in place. This was found to be a blanket policy covering all properties and is considered to be suitable in order to mitigate the risk of tenants taking out and then cancelling a policy, potentially leaving a property uninsured. Assurance was obtained that the insurance cover in place is sufficient and is supported by independent valuations.</p>	None required.

<p>Economic and Financial</p> <p>E1: Tenancy agreements may not be in place and may:</p> <ul style="list-style-type: none"> • Not be signed by all parties. • Not contain key information. • Lead to rental income being incorrectly charged. • Not be reviewed prior to expiry. • Lead to key terms not being adhered to. • Not be registered with the Land Registry. 	<p>Substantial</p>	<p>The leases themselves were found to include the expected key terms such as tenancy and rent review dates, rent amount, date and frequency, any applicable service charges and break clauses etc. For each property, these terms were found to be adhered to and accurately reflected on a master spreadsheet, which is used by the Asset Management team to enable effective monitoring.</p> <p>In respect of the rental values specified in the leases, audit testing confirmed that in all cases the correct amounts have been charged and that rental income has been received in a timely manner.</p> <p>The audit established that, in accordance with the leases, service charges are payable for 2 out of the 9 properties. This is due to only 2 of the properties having shared spaces, for which a service charge is applicable. These charges can vary year on year and therefore a budget is agreed annually. An annual reconciliation also takes place to identify any under or overpayments that a tenant may have paid. These were found to be independently verified each year by external accountants and agreed to the values shown on the general ledger, providing assurance that the correct amounts have been received.</p> <p>In relation to property inspections, the audit confirmed that these have now been undertaken in accordance with the lease terms and inspection reports are now being completed. It is acknowledged that inspections did not take place during the Covid pandemic which is considered reasonable. Some more recent inspections are also slightly later than scheduled, due to the Asset Management Team Leader covering additional duties. We are satisfied however that inspections have been undertaken within the resources available and that the frequency is still sufficient for the council to confirm that the property is being maintained to an agreed and acceptable level. A financial reserve is in place to support the maintenance of the properties, however to date no significant issues have arose as result of these inspections.</p> <p>Leases are required to be registered with the Land Registry if they are granted for a period of more than 7 years and is the case for both sub-leases and head-leases. It is the responsibility of the tenant to register the lease. Given that the council's property portfolio are all subject to long leases, documentation was reviewed during the audit which verified that in all cases, there is evidence that the lease has been registered with the Land Registry.</p>	<p>None required.</p>
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Contracts Register- corporate improvement.

Summary

Corporate improvement work is ongoing in relation to reviewing and updating the council's contracts register. A software called 'Intend' is used to procure, record and publish contracts with a value over £10,000. Internal Audit are assisting with ensuring that the information published on the council's website in respect of contracts is accurate and up to date.

This work has highlighted that further work is required in order to fully meet the requirements of the Transparency Code 2015. As well as publishing contracts that exceed £10,000, the Code places a requirement on the council to publish contracts with a value between £5,000 and £10,000. However, due to the limits within the council's procurement rules, obtaining three quotes is sufficient to enter into a contract at this value. As a result, these do not need to be processed through the Intend system and therefore are not currently published. To address this issue, a process has been identified to record this information moving forward and further work will be required to capture all existing contracts within this price range. The Head of Audit and Governance will raise this with the Corporate Governance Group who will oversee the implementation of this work and compliance with the Transparency Code.

As a result of this work the updated contracts register will be used by the Information Governance and Security Board to consider contracts coming up for renewal and ensure they align with the direction of travel of the council's ICT and digital strategies, meet necessary technical and data protection requirements and can be adequately resourced including ongoing support and maintenance.

Recommendations Rating

Priority:		Definition:
1	High	A fundamental weakness in the system that puts the Authority at risk. This might include non-compliance with legislation or council policy, or may result in major risk of loss or damage to council assets, information or reputation. Requires action as a matter of urgency; to be addressed within a 3-6 month timeframe wherever possible or within an extended time frame as agreed with Internal Audit if the recommendation requires extensive resources or time.
2	Medium	Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate action. Legislation or policy are unlikely to be breached as a consequence of these issues, although could cause limited loss of assets, information or adverse publicity or embarrassment. Internal audit suggest improvement to system design to minimise risk and/or improve efficiency of service. To be resolved within a 6-9 month timescale.
3	Low	Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control. A desirable improvement to the system, to be introduced within a 9-12 month period.

Level of control

Level of control:	Definition:	Guidance:
Substantial	Substantial assurance- A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	No audit recommendations or no more than 3 low priority (3) recommendations.
Reasonable	Reasonable assurance- There is generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	No more than 2 medium priority (2) recommendations, possibly with some low (3) recommendations.

Limited	Limited assurance- Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Between 1 and 3 high priority (1) and possibly several other priority recommendations OR 3 or more medium (2) recommendations.
No Assurance	No Assurance- Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	4 or more Priority 1s OR 6 or more medium priority (2) recommendations.