

**Agenda Item No:** 5

**Report To:** Audit Committee

**Date:** 22 June 2017

**Report Title:** Property Management Audit Report & Follow Up

**Report Author:** Alison Blake – Audit Manager



**Summary:** The report provides the Committee with a copy of the Property Management audit report, issued in May 2017. Our conclusion is that the controls offer only *weak* assurance and require further support to operate effectively.

The outcome of our initial follow up work has confirmed the recommendations that have fallen due are all implemented. Furthermore, we noted good progress towards the implementation of the remaining recommendations.

**Key Decision:** NO

**Affected Wards:** All

**Recommendations:** 1. That the Committee **notes** the Property Management report and progress towards implementation of the recommendations.

**Policy Overview:** N/A

**Finance:** N/A

**Risk Assessment** N/A

**EIA** N/A

**Other Matters:** N/A

**Exemption Clauses:** N/A

**Background Papers:** Property Management Audit Report (attached as Appendix A)

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## Report Title: Property Management Audit Report & Follow Up

### Purpose of the Report

1. Our audit plan, approved by Members in March 2016, included an audit to review the operation of the Property Management Service, including income controls. That report concluded the controls offered only *weak* assurance, meaning the service requires support to operate consistently at an effective level.
2. This report presents the Property Management report (attached at Appendix A) to the Committee. Furthermore, it provides an update as to progress towards the implementation of the nine recommendations raised. This progress can be summarised as:

Recommendation	Delayed & risk remains exposed	Delayed, but no extra risk	Not yet due but on track	Completed
<b>R9: Reconciliation</b> Priority 2: High				✓
<b>R1: Property Strategy</b> Priority 2: Medium			✓	
<b>R2: Roles &amp; Responsibilities</b> Priority 2: Medium			✓	
<b>R3: Procedure Notes</b> Priority 2: Medium			✓	
<b>R4: Asset Management System</b> Priority 2: Medium			✓	
<b>R5: Property Register</b> Priority 2: Medium			✓	
<b>R6: Rent Review</b> Priority 2: Medium				✓
<b>R7: Corporate Debt Policy</b> Priority 2: Medium			✓	
<b>R8: Rent Arrears</b> Priority 2: Medium				✓

## Background

3. The audit of the Councils Property Management Service was undertaken during February / March 2017. The objective was to provide assurance over the adequacy of controls for the lease administration of Council properties and the charging, collection, banking and reconciliation of property rental income for 2016/17.
4. The outcome of this audit was that while valid lease agreements exist and are appropriately maintained, improvements were needed to ensure appropriate management of income. In particular the investigation of rental income reconciliation variances, monitoring and reviewing rent arrears, and progressing the procurement of an asset management system.
5. We raised nine recommendations to support improvements to the service. One was rated as high priority, meaning remedial action must be taken at the next available opportunity. The remaining eight recommendations were rated as medium priority, meaning remedial action should be taken, normally within six months to a year.
6. Officers agreed all of the recommendations raised and put in place actions to address them. A copy of the report, including recommendations and action plan, is attached at Appendix A.
7. It is important to note that implementation dates are agreed in a discussion between audit and management rather than imposed by audit. Our standard approach includes suggestions for implementation timescales (for instance, a medium priority report within the next six months to a year) but we recognise each action must be assessed on its specifics and so regularly vary from that guideline. In this instance the action plan would see the implementation of all recommendations within 7 months of the final report being issued.
8. We met with officers ahead of reporting to this Committee to establish progress with the implementation of the action plan. The table over the page describes the outcome of this follow up against each recommendation (including those not yet due).

Recommendation	Follow Up Outcome
<p><b>R9: Reconciliation</b>  <i>Evidence the reconciliation of the rental income due and received, and document reasons for identified variances. Ensure reconciliations are independently reviewed.</i></p> <p>Priority 2: <b>High</b>  Due Date: May 2017</p>	<p><b>Implemented</b></p> <p>Reconciliation spreadsheets have been developed with Finance. These are being reviewed monthly by the Property Management service and action taken is documented.</p>
<p><b>R1: Property Strategy</b>  <i>Complete the review of the property strategy and seek formal approval.</i></p> <p>Priority 2: <b>Medium</b>  Due Date: November 2017</p>	<p><i>Not yet due</i></p> <p>An external consultant may be able to assist in review of the existing draft strategy. Completion of the recommendation is on target for the original due date.</p>
<p><b>R2: Roles &amp; Responsibilities</b>  <i>Document the roles and responsibilities of the officers involved in the property management service.</i></p> <p>Priority 2: <b>Medium</b>  Due Date: June 2017</p>	<p><i>Not yet due</i></p> <p>Work has been undertaken to document key processes and who is responsible for each element. These will shortly be shared with those involved to confirm their accuracy and ensure all officers are aware of their responsibilities. Further updates will be made as needed once the new asset management system (R4) is introduced. Completion of the recommendation is on target for the original due date.</p>
<p><b>R3: Procedure Notes</b>  <i>Document procedures for processing key property management functions and ensure that these are accessible to relevant staff.</i></p> <p>Priority 2: <b>Medium</b>  Due Date: November 2017</p>	<p><i>Not yet due</i></p> <p>Work has been undertaken to document key processes and once this is complete they will be shared with officers as required. Further updates will be made as needed once the new asset management system (R4) is introduced. Completion of the recommendation is on target for the original due date.</p>
<p><b>R4: Asset Management System</b>  <i>Complete installation of the Asset Management System.</i></p> <p>Priority 2: <b>Medium</b>  Due Date: November 2017</p>	<p><i>Not yet due</i></p> <p>The new Asset Management System has now been purchased and CIPFA will be coming in over the next month to provide training and support. Completion of the recommendation is on target for the original due date.</p>

Recommendation	Follow Up Outcome
<p><b>R5: Property Register</b>  <i>Cleanse and update the property register regularly and update with all required information. Access to the register should be appropriately restricted.</i></p> <p>Priority 2: <b>Medium</b>            Due Date: November 2017</p>	<p><i>Not yet due</i></p> <p>Access to the register has been restricted. Cleansing of data will be undertaken in line with the roll out of the new Asset Management system (R4).            Completion of the recommendation is on target for the original due date.</p>
<p><b>R6: Rent Review</b>  <i>Assign responsibility for undertaking and approving rent reviews, and ensure they are completed in a timely manner.</i></p> <p>Priority 2: <b>Medium</b>            Due Date: May 2017</p>	<p><b>Implemented</b></p> <p>Responsibility for undertaking and approving rent reviews has been assigned. The process has been documented and forms part of the procedures work (R3).</p>
<p><b>R7: Corporate Debt Policy</b>  <i>Update the Corporate Debt Policy to detail specific procedures for dealing with unpaid rental income, reducing rent and discretionary rent breaks.</i></p> <p>Priority 2: <b>Medium</b>            Due Date: August 2017</p>	<p><i>Not yet due</i></p> <p>Completion of the recommendation is on target for the original due date.</p>
<p><b>R8: Rent Arrears</b>  <i>Obtain and monitor debt reports for the Council's commercial properties and take action as necessary.</i></p> <p>Priority 2: <b>Medium</b>            Due Date: May 2017</p>	<p><b>Implemented</b></p> <p>Finance supply monthly reports on outstanding debts and these are reviewed by Property Services. Debt recovery action is taken as appropriate and a record of this maintained.</p> <p>Further to this the debt recovery action taken by external contractors (who manage some of the Councils' properties) has been established.</p>

## Risk Assessment

9. N/A

## Equalities Impact Assessment

10. N/A

## **Other Options Considered**

11. N/A.

## **Consultation**

12. As the report was in draft at the time of the last meeting of the Audit Committee a verbal summary was provided to the Chair. Following finalisation of the Property Management report it was circulated in full to the Chair.

13. A copy of this report was circulated to officers for comment.

## **Implications Assessment**

14. N/A

## **Handling**

15. N/A

## **Conclusion**

16. Prompt progress has been made towards implementing the recommendations raised in the Property Management report

## **Portfolio Holder's Views**

17. N/A

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# MID KENT AUDIT

## PROPERTY MANAGEMENT

### FINAL AUDIT REPORT

MAY 2017

Final Assurance Rating: **Weak**

<b>Audit Code</b>	ABC-OR12(16-17)	<b>Service</b>	Property Services
<b>Auditor</b>	Tuoyo Dada	<b>Audit Sponsor</b>	Paul Mckenner
<b>Audit Manager</b>	Alison Blake	<b>Chief Executive</b>	Tracey Kerly



# MID KENT AUDIT

## Summary Report

Our opinion based on our audit work is that the Property Management Service has **Weak** controls in place to manage its risks and support achievement of its objectives. We provide the definitions of our assurance ratings at appendix II.

The Council has valid lease agreements in place that we found matched details held in the property register. The Council's legal team appropriately retain and securely store all lease documentation. However, key property information such as property category, use, occupier, rental income, details of maintenance liability, terms of assignment and subletting, insurance details, tenant and landlord covenants is held in unprotected spreadsheets vulnerable to incorrect adjustment. The Council recognises this risk and plans to acquire a dedicated Asset Management System.

The current procurement strategy is not finalised and supporting procedures need to be developed to ensure consistency in key functions such as managing and reconciling rental income, processing lease terminations, and maintaining and updating the property register. Furthermore the Council should document and clarify roles and responsibilities for implementing the strategy. For example, responsibility for monitoring the rent review process is unassigned and so does not always happen in good time.

The Council has sound processes in place for invoicing and collecting payment of rent. However, we could not confirm the Council has accounted for all income due owing to a lack of clarity and documentation in reconciliation processes.

Notable practice identified	Areas to improve
<ul style="list-style-type: none"><li>Valid lease agreements exist for properties listed in the property register.</li></ul>	<ul style="list-style-type: none"><li>Document roles and responsibilities of relevant officers and procedures for key processes – <b>R2 &amp; R3</b></li><li>Progress procurement of the Asset Management System – <b>R4</b></li><li>Property register should be cleansed regularly, updated and restricted – <b>R5</b></li><li>Monitor and review rent arrears – <b>R8</b></li><li>Reconciliation of rental income and any identified variances should be documented – <b>R9</b></li></ul>

# MID KENT AUDIT

## Next Steps

At page 11 we describe the 9 recommendations arising from our work, and responses from management. We note the service has agreed to carry out the recommendations. We will follow them up as they fall due in line with our usual approach and consider re-evaluating the assurance rating as the service acts to address the issues identified.

We have prioritised our recommendations as below:

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
-	1	8	-	-

We provide the definition of our recommendation priorities at appendix II.

## Findings in Context

There have been no previous internal audit reviews of the Property Management Service at the Council.

## Independence

We are required by Public Sector Internal Audit Standard 1100 to act at all times with independence and objectivity. Where there are any threats, in fact or appearance, to that independence we must disclose the nature of the threat and set out how it has been managed in completing our work.

We have no matters to report in connection with this audit project.

## Acknowledgements

We would like to express our thanks to all those officers who assisted completion of this work, in particular;

Paul Mckenner	Head of Corporate Property and Projects
Caroline Carney	Procurement and Support Manager
Linda Paredes	Special Projects Coordinator
Claire Wilmore	Technical Support Officer
Martin Williamson	Senior Income Officer
Catherine Foreman	Chartered Legal Executive
Sue Smith	Chartered Legal Executive

# MID KENT AUDIT

Audit team and contact details	Report distribution list
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# MID KENT AUDIT

## Detailed Findings

We completed fieldwork in February 2017 to the agreed audit objectives and using the tests set out in the final audit brief dated January 2017. We include the audit brief at appendix I.

We have amended the brief at appendix I from its original presentation to vary the timing the draft report was issued to reflect later agreement with the Audit Sponsor.

### **Objective 1: To verify that the Council's properties that generate rental income are fully and accurately accounted for on the Council's asset management system.**

The property strategy (2009/10 – 2011/12) for the Council does not reflect current practice. Discussions with the Senior Commercial Development Manager established that this is currently being reviewed to incorporate a wider scope. In the interim, the Council places reliance on a Planned Maintenance Programme, a Statutory Compliance Schedule and an Acquisition and Disposal Checklist which are available to the relevant staff. **R1**

#### **R1: Property Strategy**

**Priority 3: Med**

**Complete the review of the property strategy and seek formal approval.**

There is an organisational chart in place for the Corporate Property and Projects Team that details the job titles of staff involved in the property management service. The responsibility for processing rental income lies with the Senior Income Officer in the Sundry Debtors Team. Discussions with the teams established that officers are assigned specific responsibilities in line with the organisational chart; however, the roles and responsibilities are not documented. A lack of clarity over the requirements of the role may mean that staff are unaware of their responsibilities. **R2**

#### **R2: Roles and Responsibilities**

**Priority 3: Med**

**Document the roles and responsibilities of the officers involved in the property management service.**

There are no detailed procedures in place to provide guidance for performing key property management functions; including the calculation, charging, collection, reconciliation of rental income, processing lease terminations, maintaining and updating the property register, and budget monitoring. A flowchart documents the rent review procedure; however, we noted that this is not readily available / accessible to staff. Procedure notes would help ensure that staff adopt the most efficient and effective working practices. **R3**

# MID KENT AUDIT

## R3: Procedure Notes

Priority 3: Med

**Document procedures for processing key property management functions and ensure that these are accessible to relevant staff.**

There is no dedicated Asset Management System in use by the Council. Asset management records are currently being managed on Excel spread sheets which are not integrated to ensure that the income and asset register / property database are compatible at all times. The Council is however in the process of acquiring the CIPFA Property's Asset Management System. **R4**

## R4: Asset Management System

Priority 3: Med

**Complete installation of the Asset Management System.**

The Corporate Director (Law and Governance) maintains a register of all land and property owned or leased by the Council. Access to edit this file is restricted.

There is a register of property assets maintained by Corporate Property and Projects that captures the details of the commercial properties owned by the Council. Audit examination of the register noted incomplete data for some properties. Furthermore, the property register is stored in a shared drive with general access, is not password restricted and there is no audit trail of updates made. The register is colour coded by year and data should be cleansed in line with the colour codes. However, audit examination of the register identified two instances (out of a sample of ten properties) where the details are out of date. **R5**

## R5: Property Register

Priority 3: Med

**Cleanse and update the property register regularly and update with all required information. Access to the register should be appropriately restricted.**

We confirmed that the Council maintains appropriate records to ensure that rents are invoiced as due. The invoices are set up on the eFinancials system on receipt of notification of a new lease agreement from the Legal Team. The invoicing for monthly rental income is automated.

**Conclusion:** We conclude as a result of our testing that the controls in place do not demonstrate adequate assurance that the Council's rental income properties are fully and accurately accounted for on the Council's asset management system.

# MID KENT AUDIT

## **Objective 2: To establish the accuracy of lease, licence and rental charges for properties owned.**

For a sample of 10 properties we confirmed that there are valid lease agreements in place. Examination of the lease agreements and, where applicable, subsequent variations, identified that key details of the lease terms and conditions were stated. The lease details matched the property details listed in the property register.

Our testing of 10 lease agreements (including rent review agreements) identified that they are not evidenced as signed by the parties to the agreement. The lease holder retains the original agreement signed by the Council while the counter copy, which is signed only by the leaseholder, is retained by the Council. Internal Audit was informed that the Legal Team performs checks to confirm that changes are not made to the lease agreement returned by the lease holders. Where the Council is required to produce a copy of the lease, it would use the counterpart.

The Legal Team retains the original supporting documentation for all leases listed in the property register. These are held in a strong room with appropriate safeguards and restricted access.

The Council's approved procedure for rent review is documented. Our examination of the procedure noted that the responsibility for monitoring the rent review process is not assigned to a specific individual/team. The rent review policy indicates that the process could be triggered by either Legal or Corporate Property and Projects. This presents a risk of financial loss arising from rent reviews being delayed or omitted as the responsibility is not owned. Canterbury City Council undertakes property valuations and advise on rent increases on behalf of the Council. Tenants are notified of rent reviews as applicable.

From a sample of 10 properties, we identified six properties that required rent reviews. Of these, two rent reviews were outstanding since March 2014 and July 2015. It was established that the review delay was from the Property Valuation Team at Canterbury City Council. This has been escalated by the Council and is being progressed. Two further rent reviews were not evidenced as performed in a timely manner, a rent review agreed in September 2016 has not been signed by the leaseholder, and a review agreed with the leaseholder in November 2016 not updated on the finance system as required. **R6**

**R6: Rent Review**

**Priority 3: Med**

**Assign responsibility for undertaking and approving rent reviews, and ensure they are completed in a timely manner.**

# MID KENT AUDIT

**Conclusion:** We conclude based on our testing that the controls in place are adequate to establish the accuracy of lease, licence and rental charges for properties owned.

# MID KENT AUDIT

## **Objective 3: To review the controls in place for the charging, collection, banking, reconciliation and recovery of rental income due in line with the Council's payment terms.**

For a sample of 10 properties, we confirmed that eight rent invoices have been correctly set up on the financial system in line with the relevant lease agreements. We identified two leaseholders who were invoiced for a previous rental amount, even though a new rent had been agreed. For one of these, we were informed that this was as a result of the contract for the new rent not yet being agreed.

For the properties with outsourced income collection, there are contracts with two Managing Agents – GVA Grimley Limited and Jones Lang LaSalle Limited (JLL). These detail the income reporting requirements. The responsibility for monitoring the income for these properties is assigned to the Special Projects Coordinator.

There are suitable methods in place for collection of rental income and the payment method options are clearly communicated to all tenants.

There is a Corporate Debt Policy in place that sets out the general principles to be applied in relation to debt management across the services provided by the Council. There is no specific procedure for dealing with unpaid rental income and this is treated as a sundry debt. The process of reducing rent and discretionary rent breaks is not documented. **R7**

### **R7: Corporate Debt Policy**

**Priority 3: Med**

**Update the Corporate Debt Policy to detail specific procedures for dealing with unpaid rental income, reducing rent and discretionary rent breaks.**

Responsibility for billing sundry debts is assigned to the service provider (Corporate Property and Projects), whereas the collection and recovery of the debt is the responsibility of the Revenues & Benefits Manager. Corporate Property and Projects are not notified of rent arrears regularly or in a timely manner. We obtained the up to date rent arrears list for one site (Ellingham Way) and noted 17 out of 77 properties with unpaid rent arrears. This indicated 29% (£11k out of expected rent of £39k) being owed, representing between one and two months rent arrears. The list detailed the actions that had been taken by the Council for 10 properties, but actions were not detailed for the remaining seven. Of these 2 resulted from back dated rent, three were immaterial and no detail was provided for the remaining two. **R8**

# MID KENT AUDIT

## R8: Rent Arrears

Priority 3: Med

**Obtain and monitor debt reports for the Council's commercial properties and take action as necessary.**

The ledger codes are defined for the commercial properties and cost codes are assigned to all leases to ensure that all properties are accounted for.

Discussions with officers confirmed that the reconciliation of the rental income due and rental income received is performed quarterly by the Special Projects Coordinator. Our review of the reconciliation spread sheet identified a variance of £396k between income due and received. The reconciliation sheet does not explain this variance, and the reconciliation statement was not dated. As such, Internal Audit was unable to confirm that these are performed regularly in a timely manner. Furthermore, examination of the reconciliation sheet for Year to Date 2016/17 income noted that it had not been evidenced as independently reviewed. **R9**

## R9: Reconciliation

Priority 2: High

**Evidence the reconciliation of the rental income due and received, and document reasons for identified variances. Ensure reconciliations are independently reviewed.**

The responsibility of property income budget monitoring is appropriately assigned. Quarterly budget monitoring reports are presented to senior management and Cabinet and highlight the budget performance including reasons for key variances.

**Conclusion:** We conclude based on our testing that the controls in place as applied are not effective in ensuring the system accurately records and handles information.

# MID KENT AUDIT

## Recommendations and Action Plan

<b>R1: Property Strategy</b>		<b>Priority 3: Med</b>
<p><b>Complete the review of the property strategy and seek formal approval.</b></p> <p>Implementation of the recommendation will equip the Council with a high-level strategic framework for managing its property portfolio effectively.</p>		
<b>Management Response</b>		
<p>A meeting arranged 23<sup>rd</sup> May with external consultant to examine the option of implementing a holistic asset management strategy for both Corporate Property and Housing Portfolio's. In the event this is not possible, appointment of a consultant to draft Strategy for endorsement by Cabinet November 2017</p>		
<p><b>Responsible officer:</b> Stewart Smith</p>		<p><b>Implementation date:</b> November 2017</p>

<b>R2: Roles and Responsibilities</b>		<b>Priority 3: Med</b>
<p><b>Document the roles and responsibilities of the officers involved in the property management service.</b></p> <p>Implementation of the recommendation will help ensure that staff are aware of their responsibilities and key functions are appropriately delivered.</p>		
<b>Management Response</b>		
<p>Paper on the roles and responsibilities involved including those outside the service to be circulated in advance of the next Audit Committee for comment</p>		
<p><b>Responsible officer:</b> Caroline Carney</p>		<p><b>Implementation date:</b> June 2017</p>

# MID KENT AUDIT

<b>R3: Procedure Notes</b>		<b>Priority 3: Med</b>
<p><b>Document procedures for processing key property management functions and ensure that these are accessible to relevant staff.</b></p> <p>Implementation of the recommendation will help ensure that staff adopt the most efficient and effective working practices and legislation is complied with.</p>		
<b>Management Response</b>		
<p>Review of the existing procedures will be carried and will be developed alongside the drafting of the emerging asset management strategy.</p>		
<p><b>Responsible officer:</b> Caroline Carney</p>	<p><b>Implementation date:</b> November 2017</p>	

<b>R4: Asset Management System</b>		<b>Priority 3: Med</b>
<p><b>Complete installation of the Asset Management System.</b></p> <p>Implementation of the recommendation will ensure that the finance and asset management systems are integrated and that the property register and income are compatible at all times.</p>		
<b>Management Response</b>		
<p>PID had been developed prior to the audit for the acquisition of an Asset Management System and will be submitted to Management Team for funding approval. Project team to be created will include Clare Willmore, Caroline Carney, Paul Stanton, John Murray and Maria Hadfield.</p>		
<p><b>Responsible officer:</b> Clare Willmore</p>	<p><b>Implementation date:</b> November 2017</p>	

# MID KENT AUDIT

<b>R5: Property Register</b>		<b>Priority 3: Med</b>
<p><b>Cleanse and update the property register regularly and update with all required information. Access to the register should be appropriately restricted.</b></p> <p>Implementation of the recommendation will ensure that the property register is up to date and fit for purpose.</p>		
<b>Management Response</b>		
Will form part of recommendation R4 above		
<p><b>Responsible officer:</b> Clare Willmore</p>	<p><b>Implementation date:</b> November 2017</p>	

<b>R6: Rent Review</b>		<b>Priority 3: Med</b>
<p><b>Assign responsibility for undertaking and approving rent reviews, and ensure they are completed in a timely manner.</b></p> <p>Implementation of the recommendation will minimise the risk of financial loss to the Council.</p>		
<b>Management Response</b>		
<p>This will be incorporated within R2 above. Caroline Carney will be responsible for undertaking the rent reviews and Paul Mckenner – Head of Corporate Property and Projects will approve. Pro forma will be developed alongside the installation of the asset management system</p>		
<p><b>Responsible officer:</b> Caroline Carney</p>	<p><b>Implementation date:</b> May 2017</p>	

# MID KENT AUDIT

<b>R7: Corporate Debt Policy</b>		<b>Priority 3: Med</b>
<p><b>Update the Corporate Debt Policy to detail specific procedures for dealing with unpaid rental income, reducing rent and discretionary rent breaks.</b></p> <p>Implementation of the recommendation will minimise the risk of financial loss to the Council.</p>		
<b>Management Response</b>		
<p>Corporate debt policy for non-residential property to be drafted and included with the Council's debt policy and approved by Cabinet</p>		
<p><b>Responsible officer:</b> Caroline Carney</p>	<p><b>Implementation date:</b> August 2017</p>	

<b>R8: Rent Arrears</b>		<b>Priority 3: Med</b>
<p><b>Obtain and monitor debt reports for the Council's commercial properties and take action as necessary.</b></p> <p>Implementation of the recommendation will minimise the risk of financial loss to the Council and ensure compliance with the Corporate Debt Policy.</p>		
<b>Management Response</b>		
<p>Head of Finance to provide a debt report initially on a monthly basis, for review by Caroline Carney and actioned as necessary. This will be implemented as outlined with R2 above</p>		
<p><b>Responsible officer:</b> Martin Williamson</p>	<p><b>Implementation date:</b> May 2017</p>	

# MID KENT AUDIT

## R9: Reconciliation

**Priority 2: High**

Evidence the reconciliation of the rental income due and received, and document reasons for identified variances. Ensure reconciliations are independently reviewed.

Implementation of the recommendation will ensure that all income due is accounted for.

### Management Response

Existing reconciliations will be developed by Linda Paredes to show debt due and payment received with commentary. Variances over £ 5,000 will be required to be signed off by line Manager Caroline Carney and if necessary actioned in line with the Corporate debt policy.

**Responsible officer:**

Linda Paredes

**Implementation date:**

May 2017

# MID KENT AUDIT

## Appendix I: Audit Brief

### About the Service

Properties and facilities managements are currently contracted out to external providers. Alternative property management arrangements are currently being explored in order to save costs and improve the service.

The revenue generated by the Council's corporate property portfolio contributes significantly to the Council's income and for 2015/16 this totalled £3,222,716.

The Council's investment in commercial property is crucial in achieving its corporate priorities in particular the underpinning principle of "a viable and sustainable replacement for Formula Grant, generating an additional £2m per annum by 2020 through investing in the borough".

### About the Audit

The audit seeks to provide assurance over the adequacy of controls over the lease administration of Council properties and the charging, collection, banking and reconciliation of property rental income for 2016/17.

Our findings in this review will contribute towards the internal controls aspect of the Head of Audit Opinion, to be issued in June 2017.

### Audit Objectives

1. To verify that the council's properties, where rental income is payable, are fully and accurately accounted for on the council's asset management system.
2. To establish the accuracy of lease, licence and rental charges for properties owned.
3. To review the controls in place for the charging, collection, banking, reconciliation and recovery of rental income due in line with the Councils payment terms.

# MID KENT AUDIT

## Audit Scope

1. Policies and procedures
2. The asset management records
3. Property records
4. Lease/rent agreements
5. Rent invoices
6. Rent reviews
7. Charging, collection, banking and reconciliation of rental income
8. Recovery of unpaid rent
9. Budget monitoring

## Audit Testing

1. Interview officers to establish the system for recording and accounting for all Council owned properties where rental income is due.
2. Review of property records to identify all properties where rental income is due and that they are accounted for on the Council's property register.
3. Testing of 10 rental properties (selected from the property register) to ensure that complete and accurate property records are kept.
4. Testing of 10 rental properties listed on the property register to verify that the rent charged to the tenant is in line with the leaseholder agreement.
5. Discussions with officers to establish the process for reviewing rent
6. Testing of 10 rental properties to ensure that the rent review process has been followed, where applicable.
7. Establish the rent collection process through discussions with officers.
8. Test all debtors to ensure that the correct process is being followed to recover arrears.

## Audit Resources

<b>Audit Task</b>	<b>Auditor</b>	<b>Number of Days (Projected)</b>
Planning	Alison Blake	1.5
Fieldwork	Tuoyo Dada	8
Reporting	Tuoyo Dada	1
Supervision & Review	Alison Blake	1.5
<b>Total</b>		<b>12</b>

# MID KENT AUDIT

## Audit Timeline



\* Fieldwork end date extended to allow time for wash up with client.

\*\* Additional time to allow client to discuss findings and agree actions

## Resources required by audit

Key Contacts	
John Murry	Property Building Services Manager
Clare Wilmore	Technical Support Officer, Corporate Property and Projects
Martyn Williamson	Senior Income Officer
Phil Bond	Business Support Manager
Sue Smith / Catherine Forman	Legal – tenancy agreements

Documents required
Property Asset Strategy
Lease agreements
Property register / records
Rental invoices
Rent review documentation

# MID KENT AUDIT

## Appendix II: Assurance & Priority level definitions

### Assurance Ratings

Full Definition	Short Description
<p><b>Strong</b> – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p><b>Sound</b> – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p><b>Weak</b> – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p><b>Poor</b> – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

# MID KENT AUDIT

## Recommendation Ratings

**Priority 1 (Critical)** – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

**Priority 2 (High)** – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

**Priority 3 (Medium)** – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

**Priority 4 (Low)** – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

**Advisory** – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.