

Appendix C

Internal Audit Report 2428 – Fixed Asset Register

Overall opinion

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a 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.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Strategic	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.

Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's Fixed Asset Register.

The Fixed Asset Register (FAR) is used to record the Council's non-current assets, which are expected to be retained in use for more than one financial year. These 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. These assets will be recognised in the Council's financial accounts after capital expenditure has been incurred to create or enhance them, will be depreciated / amortised in line with the Council's accounting policies, and where applicable are subject to revaluation at least once every five years.

The total value of non-current assets in the register as at 31 March 2023, as reflected in the unaudited annual accounts, was approximately £2.433b (2022: £2.328b). Given the value of the Council's fixed asset portfolio, it is a significant line item in the annual accounts and as such a focus of External Audit. This report refers to findings of External Audit as part of their 2022/23 review. It is not the intention of Internal Audit to mirror the work of External Audit and instead where the same conclusions have been drawn, reference is made to show the consistent issues. Where External Audit has made recommendations to improve the framework of control, the recommendations in this report are seen as complementary and corrective actions and improvements carried out in unison. Internal Audit does not expect any duplication of efforts between the outputs of this review and that of External Audit.

An experienced team within Finance prepare and monitor capital budgets in consultation with relevant service managers and this work and attendance at relevant service meetings, such as asset disposal meetings, helps ensure maintenance of records required for updating the Fixed Asset Register at year end. Comprehensive

guidance is available to relevant Finance staff on the use of the FAR. In addition, clear capital expenditure guidance is available to Council staff via the Finance Hub.

System outputs reviewed during the audit, were in line with the CIPFA code of practice on local authority accounting requirements, based on system inputs (e.g. depreciation charge based on useful life and depreciation method).

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically:

- **System Functionality** – Enquiries of Finance concluded that the Council's FAR is generally fit for purpose and is an improvement on the previous system. However, some system functionality issues exist. External Audit experienced challenges using the system's output since it did not produce a single report meeting their needs which reconciled directly to the financial statements, with manual adjustments required in the related working papers. In addition, whilst Finance has five user licenses, only one user can update the FAR at any given time restricting the rate of system updates at year end. Also, large year-end spreadsheet journal files require manual update of subjective financial codes prior to upload to the general ledger, risking manual data entry error.
- **Completeness and Existence** – Finance normally seeks assurance over recorded assets, including expired assets requiring removal from the FAR, from the relevant Service Managers, by circulating reports of recorded assets to verify accuracy. However, this process was not completed in 2022/23 risking completeness of recorded assets as well as overstated cost and accumulated depreciated where assets no longer exist – a risk highlighted by External Audit in 2022/23. It should be noted the lack of existence checks has no impact on net book value balance sheet figures but may overstate the gross carrying amount and accumulated depreciation in the related note to the Annual Accounts where expired assets are not removed where required.
- **Historic Assets** – It was also noted one (10%) of ten fixed assets reviewed, understood to be owned by the Council, based on feedback from the Historic Environment team during this review, was not recorded in the FAR since a title search had not been undertaken to confirm this. It is correct that the asset is not recorded in the FAR until ownership has been confirmed however in the interests of ensuring adequate asset management and insurance arrangements, it would be beneficial if ownership of such assets was verified, and the fixed asset register updated where necessary. It should be noted that this may not have a material impact on the value of assets recorded in the FAR/Annual Accounts due to the historic nature of these assets depending on the classification and measurement basis. In addition, Finance advised, like certain community assets, the ownership verification process for such assets can be a costly and lengthy one, so this should be considered as part of any potential review of these assets.
- **Capital Expenditure from Current Revenue (CFCR)** – Finance CFR guidance clearly describes revenue expenditure capitalisation requirements by asset class. However, two (29%) of seven revenue expenses reviewed were not capitalised as required. This included a cold-water storage tank (£14k) and installation of a heavy duty stairlift (£6k). The Capital Finance team made necessary year end enquiries based on information available however a

response was not provided for one charge to confirm capitalisation, and another was not enquired upon due to an unclear invoice description in the general ledger. Where CFCR is not capitalised, the cumulative effect of this risks misstatement to the annual accounts, albeit the risk of material misstatement is low.

Recommendations have been made to address the above risks and enhance controls, including working with the system supplier to address system functionality concerns and increasing the frequency of year end processes where possible, such as CFCR reviews, to reduce workload at year end. In addition, it is recommended Service engagement on recorded assets is recommenced to gain assurance over existence of expired assets and completeness.

Severe or major issues/risks

No severe or major issues/risks were identified as part of this review.

Management response

It is encouraging to receive a Reasonable Assurance grading. The internal audit report aligns with the concerns highlighted by the External Auditor during the year-end review of the annual accounts. The Finance service acknowledges and appreciates this thorough approach to scrutinising a substantial aspect of the council's operations. It's noteworthy that a significant portion of the assets listed in the asset register is backed by borrowing. Therefore, it is deemed fitting to ensure precise accounting for all these assets.

Finance empathises with the shared frustration expressed by both external and internal audit regarding the constraints of the off-the-shelf asset register and will continue to explore options with the system provider to develop information that meets the needs of all stakeholders.