



Report of the Director of Resources

Report to Corporate Governance & Audit Committee

Date: 15th June 2011

Subject: The accurate recognition of assets on the Council's balance sheet

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Executive Summary

1. In response to the issues raised by KPMG and members, a review of the process for recognising the sale or demolition of assets in the Fixed Asset Register has been undertaken.
2. The review identified a number of weaknesses in the control process and the report highlights the improvements that have now been implemented to address these weaknesses.
3. The original process for determining the number and value of fixed assets recognised on the balance sheet identified twenty two assets, with a combined value of £3.0m, which should not have recognised in the Fixed Asset Register. The subsequent review has identified a further two assets with a combined value of £0.6m which should not have been recognised in the Fixed Asset Register. These amendments represent less than one, one thousandth of a percent of the Council's fixed assets (£4.2bn). The resulting amendments have now been incorporated into the 2010/11 financial statements.
4. Only assets deemed to have a material impact on the readers understanding of the accounts are required to be included in the Fixed Asset Register. Assets which are currently excluded from the register on the grounds that their operational value is not material can be sold in later years for a much higher market value. Such assets would be added to the Fixed Asset Register in the year they are sold.

1.0 Purpose Of This Report

- 1.1 It was resolved at the Corporate Governance and Audit Committee held on the 21st March 2010, that members should receive a report on how new procedures will minimise the risk that sold or demolished assets will still be recognised on the Council's Balance Sheet.

2.0 Background Information

- 2.1 The Council maintains a Fixed Asset Register of all material assets held by the Council. The register currently recognises over 58,000 Council Houses and over 2,400 other assets, with a total value of over £4.2bn (valuation as at 31st March 2010). These assets are revalued on a five year rolling programme, except where there has been significant capital expenditure on the asset or there is an indication that the asset value has fallen significantly. In these cases the asset is revalued in year.
- 2.2 As part of their ISA 260 report on the Statement of Accounts, KPMG reported that the Authority had "identified five assets which were to be revalued in year which turned out to be no-longer owned, despite these being on the fixed asset register. In addition the Authority also found one further asset which had been duplicated incorrectly on the asset register The value of these six properties was £3.2m." KPMG recommended that the Council reviewed it's Fixed Asset Register to ensure all the assets were owned by the Authority.
- 2.3 Officers response to the KPMG recommendation was to agree to tightening the control procedures for removing assets from the database and to review the Fixed Asset Register to ensure that all assets currently recognised on the Balance Sheet are owned by the Council.

3.0 Main Issues

- 3.1 Prior to the review of the procedures, the Fixed Asset Register was updated via a number of sources:
- 3.1.1 The Capital Accounting & Programming system which identifies all capital expenditure incurred in the year. This provides information on new acquisitions and all significant extensions and improvements which would impact on the value of the assets held on the balance sheet.
- 3.1.2 The Capital Receipts Schedule, which identifies the assets sold in the year, is reconciled to the actual capital receipts recorded in the financial ledger. This reconciled list is then used to remove assets from the Fixed Asset Register.
- 3.1.3 In respect of the recording of demolitions, there are a number of sources of data:
- Strategic Landlord provide a list of Council House's demolished in year.
 - Asset Management provide an update of any demolitions they have been informed of.
 - The capital programme also provides information on any significant costs relating to demolitions. This information is then used to capture any demolitions not included in the data from other sources.
 - Asset Management, Directorates and the Insurance section are asked to identify any impairment of the Council's assets. This impairment data is used to identify asset impaired due to demolition or fire.
- 3.1.4 The five year rolling programme of valuations undertaken by Asset Management, which verifies that the Council still has the asset and its current value.

3.2 A review of these data gathering procedures has been completed and the following weaknesses were identified:

- A full reconciliation of the capital receipts from the sale of assets to the Fixed Asset Register has been in place since 2007/08. Prior to this time, a full reconciliation of capital receipts to the Fixed Asset Register was not undertaken and assets could have potentially been sold and still be included in the register.
- Whilst most demolitions are identified via the processes described in para 3.1.3 above, it is clear from the audit evidence that some demolitions are not being reported. The demolition of Council Houses is reconciled back to the original decisions but this is not always the case for General Fund assets.
- Assets which are not material and therefore not included in the Fixed Asset Register are often sold when they can generate a significant capital receipt due to their value to a third party. This is usually small parcels of land which have no operational value but are adjacent to areas which are being developed by a third party. These assets therefore only appear on the Council's Fixed Asset Register once they are declared available for sale as they are valued at their higher market value.

3.3 Improvements introduced for 2010/11:

- Closer liaison with Corporate Property Management has been introduced to ensure all decisions on demolitions are forwarded onto Financial Management for recognition on the Fixed Asset Register.
- Overall the process of revaluing all assets over a five year period will eventually identify any assets wrongly included in the Fixed Asset Register. However, as there are recognised weaknesses in the reconciliation of asset sales to capital receipts prior to 2007/08, a review has been carried out on all assets which were last revalued in 2006/07 or earlier.
- For 2010/11 a review is to be carried out on the Valuation Office Business Rates listings for Council owned properties. Any additions, significant falls or removal of Business Rate valuations will be investigated to check whether they are due to sales, purchases or demolitions.

3.4 In respect of assets which do not have a material value, they will continue to be excluded from the Fixed Asset Register. The Council is only required to account for those assets which have a material value based on their current operation role and not their potential market value. Such assets will only therefore be recognised when they are available for sale and their value becomes material.

3.5 The original procedures identify the following assets incorrectly recognised on the Fixed Asset Register:

- One primary school (£1.16m) which was demolished in 2006/07 as part of the EASEL project.
- Three asset not included in the Fixed asset Register but identified through significant in year capital programme works. These assets had a combined value of £1.12m.
- Three small assets (combined value of £0.27m) had been sold as part of a larger group of assets and not recognised as such when reconciled to the Capital Receipts Schedule.
- Fifteen small miscellaneous Housing Revenue Account assets (with a combined value of £0.45m) which have been sold prior to 2005/06.

These assets will be removed from the Fixed Asset Register as part of the 2010/11 closedown process.

- 3.6 After the introduction of the new procedures, the following additional assets were also identified as incorrectly recognised on the Fixed Asset Register:
- Two assets, a school (£385k) and a Community Centre (£260k), which were sold in 2006/07.
- 3.7 Members should note that whilst every effort is made to ensure that assets are correctly recorded on the Council's Balance Sheet, the value of the inaccuracies identified above are less than one, one thousandth of a percent of the Council's fixed assets.

4.0 Implications For Council Policy And Governance

- 4.1 This report specifically identifies the approach taken to mitigate the risk that the Council's assets are materially misstated in the published accounts.
- 4.2 The report contains no exempt or confidential information and the recommendation in this report do not relate to a key decision and therefore prior notification on the Forward Plan is not necessary.

5.0 Legal And Resource Implications

- 5.1 The amendments required to the financial statements only impact on Balance Sheet classifications and do not impact on the Council's bottom line. The review and the consequent improvements have been implemented within current resources.

6.0 Conclusions

- 6.1 The procedures introduced in 2007/08 and the improvements implemented for 2010/11 have identified a number of assets which should not be included in the Fixed Asset Register. All of the assets identified on the register have now been reviewed and the new procedures should ensure that assets sold or demolished are removed from the Council's balance sheet in a timely manner.

7.0 Recommendations

- 7.1 Members are asked to note the improvements in the process for minimising the risk that sold or demolished assets are recognised on the Council's Balance Sheet.

8.0 Background Papers

- 8.1 September 2010 Corporate Governance & Audit Committee - 2009/10 KPMG ISA 260 report.