



Internal Audit Report

Industrial Estates & Investment Properties Audit

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Auditor
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1 Introduction

- 1.1 This audit of Industrial Estates and Investment Properties has been undertaken in accordance with the 3 year audit plan. The audit plan is approved by the Corporate Governance and Audit Committee at Chichester District Council (CDC). The Council owns over 500 properties which range from recreation grounds, bus shelters and car parks to retail and industrial estates including those at Terminus Road and Quarry Lane.

2 Scope

Internal Audit completed an Operational Risk Assessment on the area under review and decided to test controls in place and to undertake the following for the audit:

- Document the processes for; maintaining an up to date property list, the rent subsidy scheme and collection of rental income due on commercial properties and service charges levied
- Identify and test the controls in place within the processes, including appropriate procedures, and
- Follow up on any recent audit reports.

3 Testing and Findings

- 3.1 The processes for maintaining an up to date property list, the rent subsidy scheme, the collection of rental income due on commercial properties and the collection of monies from service charges were documented and testing was undertaken on a sample basis.
- 3.2 For the rent subsidy scheme in operation for start up businesses at the St James Industrial Estate testing was undertaken to check that;
- a) the criteria for the rent subsidy had been met;
 - b) that a signed application had been received;
 - c) that 2 satisfactory references had been received for each application;

- d) that there is a completed authorisation form signed by Estates, Economic Development, Executive Director Support Services & Economy and the Chairman of Grants & Concessions panel;
 - e) that there is a signed lease which states the full rental value; and
 - f) that the correct rent is being invoiced.
- 3.3 There was one new start up business during the current year, 2016 and so this was selected for testing. It was found that the relevant documentation had been retained which gave assurance that the above requirements had been met with the exception of a signed application form. There is a pro-forma application form that should be completed by prospective tenants to the St James Industrial Estate which requires a signed declaration to confirm that the information provided is a true statement of the facts. This form had not been received and should have included a business plan and forecast accounts, only an email correspondence could be evidenced.
- 3.4 The collection of rental income from the commencement of a commercial lease or following a lease renewal was tested to ensure that;
- a) the Estates Surveyor had completed a report for the Valuation & Estates Manager; outlining the proposal for a new lease, proposed terms for a new lease, a valuation based on explicit comparable evidence and that the Surveyor's recommendation had been given approval by the Valuation and Estates Managers or Cabinet if required;
 - b) that 2 satisfactory references had been received, including a bank reference and accounts for 3 years where available;
 - c) that there is a signed lease which states the full rental value; and
 - d) that the correct rent is being invoiced.
- 3.5 Testing was undertaken of one new commercial lease. The relevant documentation had been retained which gave assurance that the above requirements had been met with the exception that no accounts or signed application form was evidenced as being received. The Estates New Letting procedure states that an application form should be sent to prospective tenants. However the Valuation and Estates Manager stated that the procedure is out of date. An application form is no longer required for new tenants other than for applicants to the St James Rent Subsidy Scheme and the procedure is to be amended to reflect the current practice.
- 3.6 Additional testing was carried out on the collection of rental income from 10 on going commercial leases to ensure that;
- a) a signed lease is held for every tenancy. Arrangements to pay are agreed, formally recorded and signed by the tenant;
 - b) the terms of the lease require payment of rent in advance and that rent is being paid in advance;

- c) rents are being reviewed as per the review dates stated in the individual lease. Details of rent reviews and new tenancies are notified to all relevant parties. There is a formal record of all rent review negotiations & terms agreed; and
 - d) that the correct rent and service charge is being invoiced.
- 3.7 The relevant documentation had been retained which gave assurance that the above requirements had been met with the following exceptions and instances that should be noted;
- a. In 2 of the 10 cases, the rent reviews were found to be not completed until one and a half and two and a half years following the due dates;
 - b. In another case the rent review is not due until 2149;
 - c. For another no rent is demanded as there is no rent clause contained in the original head lease dated 1956. There is a sub lease on this property on which CDC receives a 10% share as agreed in the change of use licence 2014.
 - d. A report was provided by the Estates Technician of completion dates against due dates for rent reviews undertaken for the period 1 January 2001 to date. An analysis was then undertaken by audit of the most recent rent reviews due and undertaken for properties on the industrial estates and, of these, the percentage of rent reviews undertaken on time during this period. This analysis found that 24% of rent reviews were completed on time whilst 76% of rent reviews were overdue and that 33% of rent reviews were overdue by over a year. However the Valuation and Estates Manager stated that rent reviews can take lengthy periods to agree to ensure the best financial outcome for the Council. In addition, once agreed, revised rents are backdated to the review date so there is no financial loss.
- 3.8 The Grants and Concessions policy, section 11, refers to concessionary rents on historic arrangements and states 'Officers are tasked to manage the tenancies of occupied properties including the reduction in the size of the concession provided, and therefore the renewal of leases that meet those criteria are delegated to officers.' During the audit, no procedure could be evidenced to support this policy (i.e. reducing concessionary rents on historic lease agreements). There is a need for more detail to specify how this policy is to be achieved and procedures that support this policy to ensure consistency in its application, as well as ensuring greater transparency.
- 3.9 The procedure for service charges includes a control for the service charge accounts to be referred to the Valuation and Estates Manager for approval and certification. However during the audit, testing revealed that the 2015/16 service charge accounts for the St James Industrial Estate had not been signed off so there was no evidence to show that the service charge accounts

had been certified and approved in accordance with the Estates Service Charge procedures.

- 3.10 It was noted during the audit that a number of the procedures for the Estates Service were out of date. For instance they require updating for current job titles. The New lettings procedure requires amending for current practice, 2 rather than 3 references are now requested.
- 3.11 It was observed during the audit that there are numerous cardboard boxes holding paper files in various offices. There is a risk of the loss of files not held in fire proof boxes. There may also be a data protection issue where the files contain copies of leases with the names and addresses of the property owners. It should be noted that all original leases are held securely.

4 Conclusion

- 4.1 Overall, the controls appear to be working satisfactorily. However, some processes, in particular for rent reviews and service charge account approval, could be improved in order to strengthen controls. Clarification is also required with regard to the policy of delegating to officers the task of reducing the level of concessions. Therefore recommendations have been made. (See Action Table at Appendix 1).
- 4.2 In order to prioritise the issues raised, the following traffic light indicator has been used:
- Red ● – Significant issues to be addressed
- Amber ● – Important issues to be addressed
- Green ● – Minor or no issues to be addressed

5 Action Plan – Appendix 1

| Paragraph Ref | Recommendation | Officer | Priority | Agreed? | Comments | Implementation Date |
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| 3.3 | Prospective tenants to St James Industrial Estate are required to complete the proforma application form and sign the attached declaration. (This applies only to prospective tenants applying for rent subsidy) | Valuation & Estates Manager | ● Important | See comments. | There is no application form for St James tenants – those applying for the rent subsidy scheme complete a separate application form. Estates Procedure Note to be updated to reflect this. | 31/03/17 (Audit at follow up to also check that application forms are being completed for the rent subsidy scheme.) |
| 3.3 & 3.5 | That checks made on the financial position of prospective tenants are evidenced by Estates Surveyors to ensure that there is a complete audit trail of this process. | Valuation & Estates Manager | ● Important | Yes | References/account details to be requested and securely filed. | 31/03/17 |

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| 3.7 | That any delays in instigating rent reviews are authorised by the Valuation & Estates Manager and progress and completion monitored. | Valuation & Estates Manager |  Important | Yes | Already in place as cases allocated by VEM and monitored through case reviews. | |
| 3.8 | Clarification is sought with regard to the policy which delegates to officers the task of reducing the size of concessions on historic lease arrangements in the Chichester District and that procedures are written and updated regularly to support this policy. | Valuation & Estates Manager |  Important | See comments | Clarification to be sought on the wording of the Policy as Estates delegated powers are to achieve market value for lettings/renewals – contracted concessionary rents cannot be changed during the lease term. | 31/05/17 |
| 3.9 | That the approval and certification of the service charge accounts is evidenced when it has been carried out. | Valuation & Estates Manager |  Minor | Yes | | 31/03/17 |
| 3.10 | Estates procedures for new lettings, rent reviews and lease renewals etc. are updated for example for current job titles. | Valuation & Estates Manager |  Minor | Yes | | 31/03/17 |

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| 3.11 | Old estate files are kept in a secure location. | Valuation & Estates Manager |  Minor | See comments. | There is currently no option for secure storage and files are kept as securely as possible in the areas available. | |
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