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AUDIT COMMITTEE REPORT

Subject: Internal Audit Assignment – Fixed Asset Management	**Purpose:** **For Approval** ☒ **For Discussion** ☐ **For Information** ☐
Prepared by: Peter D Smith, Vice Principal – Finance and Corporate Services	**Date:** 24 April 2018

Purpose: To consider the findings of the internal audit assignment on the College's Fixed Asset Management systems and approve the management responses and any further actions.

Linked to Strategic Goal 5: Build Sustainability.

Executive Summary:
Attached is the Internal Auditor's report on the review of the College's Fixed Asset Management systems. The report concludes that: -

"*We are able to provide a strong level of assurance over the controls in place regarding fixed asset management. We have raised recommendations to improve current practice.*"

There are two low-level recommendations as a result of this audit and the management responses to these are included in the report.

Thirteen areas of good practice are also identified in the report.

Recommendation: Committee consider and approve the findings of the report.

Previous Committee Approvals: n/a

For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐

Wylie+Bisset
Chartered Accountants, Business & Tax Advisers

Borders College

Internal Audit 2017-18

Fixed Asset Management
March 2018

Overall Conclusion
Strong

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for Borders College's individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

1 EXECUTIVE SUMMARY

Overview

Purpose of Review

The purpose of this assignment was to review the systems and procedures in place for fixed assets, compliance with the systems and procedures in place and the overall controls in relation to the physical safeguarding of assets.

This assignment was part of the agreed 2017/18 Annual Internal Audit Plan for the College.

Scope of Review

Our objectives for this review were to ensure:

- The College's asset registers are accurate and up to date and provide sufficient information to assist with and enhance the security of assets.
- An inventory of "attractive" items (i.e. those vulnerable to theft) whose value falls below the capitalisation thresholds is maintained by the College.
- There are appropriate security arrangements in place to ensure safeguarding of the College's assets and equipment.
- Any new assets or attractive items of equipment are tagged and added to inventory lists as soon as practically possible on delivery.
- Appropriate authorisation is granted prior to any of the College's assets being disposed of.
- There are procedures in place to ensure that data is wiped prior to any IT equipment being disposed of.
- There is due consideration given to the environmental impact when disposing of electronic and electrical equipment.
- The College holds adequate insurance cover to protect against the loss, theft or damage of its assets.

1 EXECUTIVE SUMMARY

- The College's assets, equipment and stores are managed and controlled in line with the requirements of the SPFM.
- Where the fixed asset register is independent of the accounting system, there are processes in place to ensure that the information contained in the accounting system is accurate.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of Scope

There was no limitation of scope.

Background

Borders College has in place a Fixed Asset Register and several Small Asset Registers. Small Asset Registers are maintained by the Heads of Faculty, and the Financial Regulations state that these must be updated at least annually. The Head of Finance and Procurement reports directly to the Vice Principal - Finance & Corporate Services. The Head of Finance and Procurement also oversees a Finance Manager, a Student Funding Manager and a Procurement Officer. There are 3 Finance Assistants, 2 Finance Officers, a Student Funding Officer and a Finance Administrator. The Finance Team are responsible for the updating of the fixed asset register, which is kept on a manual Excel spreadsheet. The SUN accounting system is then updated by the fixed assets and depreciation journals which are posted monthly. This is reviewed by the Head of Finance and Procurement as part of the month-end process. The repairs and maintenance and IT nominal codes on the accounting system are also reviewed during this time to ensure that any assets are capitalised where appropriate.

The ISLT Department (Information Services and Learning Technology) uses the Web Helpdesk System, which is a piece of software which has an Asset module to track the location of all IT assets. This list contains the location, asset number, description, and who the asset was assigned to if it is a portable item (for example a laptop or mobile phone). For all devices, if a staff member requests the use of a piece of IT equipment, they will complete a helpdesk request which is an electronic ticket and then this will be allocated to them by a member of the ISLT Team. Item location is tracked on a daily basis by the ISLT Team using the Web Helpdesk system. For assets on the fixed and small asset registers, checks are conducted on an ad hoc basis, at least annually. The Financial Regulations states that asset checks must be carried out at least on an annual basis.

1 EXECUTIVE SUMMARY

The College's asset disposal policy states that IT equipment must be wiped of data before disposal. When IT equipment is to be disposed of, it must first be wiped of all data. This is done by the ISLT Team by restoring equipment back to its factory settings, wiping it of all data. The ISLT Team will also ensure that electrical equipment is disposed of in an environmentally friendly way, and will be provided with Waste Electrical and Electronic Equipment (WEEE) forms from the company employed to dispose of these items. Where it is possible to recycle the equipment, a waste recycling company will be utilised and they will provide the College with a confirmation form to agree that the waste was disposed of and recycled. Where equipment is to be scrapped, an asset scrapping form will be competed and provided to the Finance Team for checking. For the scrapping of IT equipment, this is then logged on the Web Helpdesk system, which will keep a record of all assets that have been scrapped.

Work Undertaken

Our work for this review included the following:

- Discussion with relevant staff regarding the controls in place for fixed asset management.
- Conducting sample testing of disposals and additions to ensure appropriate authorisation is granted, and obtaining evidence that the College considers the environmental impact of disposals.
- Obtaining and evaluating the insurance documents relating to the fixed asset register to ensure that all assets are correctly insured.
- Obtaining and reviewing the fixed asset policies and procedures in place and evaluating for appropriateness and robustness.

1 EXECUTIVE SUMMARY

Conclusion

Overall Conclusion

Overall Conclusion: Strong
We are able to provide a strong level of assurance over the controls in place regarding fixed asset management. We have raised recommendations to improve current practice.

Summary of Recommendations

Grading of recommendations				
	High	Medium	Low	Total
Fixed Asset Management	0	0	2	2

As can be seen from the above table there were no recommendations made which we have given a grading of high.

Areas of Good Practice

The following is a list of areas where the College is operating effectively and following good practice.	
1.	We performed a reconciliation of the fixed asset register to the accounting system as at 31 January 2018 and found a £10 trivial variance caused by rounding. The College has appropriate controls in place to ensure the fixed asset register is periodically agreed to the accounting system.
2.	The College has adequate insurance cover for its fixed assets. It is insured for 32 motor vehicles, computer equipment up to a value of £1.8m, other equipment up to a value of £700k, and land and buildings up to a value of £54.68m.
3.	The College ensures that is disposes of electrical equipment in an environmentally friendly manner.
4.	The College's IT equipment is wiped of sensitive data by using the factory restore settings. This wipes all data from the equipment in a process known as "re-imaging".
5.	The College has appropriate controls in place for the disposal of assets, which includes the use of asset disposal forms which are authorised by the Finance Team.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
6.	The College has appropriate controls in place for fixed asset additions. From our sample testing of 4 fixed asset additions, we found that all had been processed consistently.
7.	The College has adequate security arrangements in place with regards to fixed assets. This includes the use of ID badges by staff and students, CCTV coverage of the campus and buildings being securely locked and alarmed overnight.
8.	The College holds a list of key holders for its buildings. Access to keys and security fobs are restricted to authorised staff.
9.	The College's ISLT Team effectively tracks asset relocations using their Helpdesk software.
10.	The College's ISLT Asset register contains the asset number, description, status, location, and the member of staff that has been allocated to if applicable.
11.	From our physical verification of assets from the asset register, we found that all assets were accounted for.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
12.	The College has a robust process for identifying fixed asset additions. The repairs and maintenance nominal codes are reviewed regularly to identify fixed asset additions. From our testing of 4 additions, we found that all additions tested had been appropriately authorised.
13.	The College utilises fixed asset disposal request forms and asset scrapping forms when disposing of assets. From our sample testing of disposals, we found that all had been appropriately authorised.

2 BENCHMARKING

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Fixed Asset Management

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	1	1	2
Number of recommendations at Borders College	0	0	2	2

From the table above it can be seen that the College has a similar number of recommendations compared to those colleges it has been benchmarked against.

3 DETAILED RECOMMENDATIONS

Small Asset Register Checks			
Ref.	Finding and Risk	Grade	Recommendation
1.	The College should ensure that it is updating its small asset registers on a regular basis. The financial regulations state that the asset registers should be updated at least annually, however it is good practice to update the registers on a more frequent basis to minimise the risk of items going missing. The College last updated its small asset registers in October and November 2017. We note that from discussion with staff, this exercise was also conducted in February 2018 however we were not provided evidence of this. There is the risk that the College may be unaware of potentially missing assets for many months.	**Low**	We recommend that the College seeks to update its small asset registers on a regular basis, such as every quarter. The College should ensure that these checks are documented so that evidence of these checks is able to be provided.
Management response			Responsibility and implementation date
Agreed. Management consider that quarterly reviews are not practicable; however procedures will be amended to include six-monthly review of small asset registers.			*Responsible Officer:* Head of Finance and Procurement *Implementation Date:* 31 July 2018

3 DETAILED RECOMMENDATIONS

Assets Misidentified on Small Asset Registers			
Ref.	Finding and Risk	Grade	Recommendation
2.	The College should ensure that staff conducting the updates of the Small Asset Registers are appropriately familiar with the assets so as to accurately identify them. From our physical verification of assets from the Small Asset Registers, we found that some assets had been misidentified and given an incorrect description on the register. We note that the items were still verifiable due to their asset numbers. There is the risk that assets could go missing if they are not accurately identified and logged on the Small Asset Registers.	**Low**	We recommend that the College ensures that staff updating the Small Asset Registers are suitably knowledgeable of the assets that they are recording so as to correctly identify them.
Management response			Responsibility and implementation date
Agreed. Staff will be reminded of the importance of correctly identifying assets in the registers.			*Responsible Officer:* Head of Finance and Procurement *Implementation Date:* 31 July 2018

4 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit Committee meeting.

Audit stage	Date
Fieldwork start	12 March 2018
Closing meeting	15 March 2018
Draft report issued	28 March 2018
Receipt of management responses	23 April 2018
Final report issued	23 April 2018
Audit Committee	16 May 2018
Number of audit days	2

5 KEY PERSONNEL

We detail below our staff who undertook the review together with the College staff who were key contacts during our review.

Wylie & Bisset LLP			
Partner	Ross McLauchlan	Partner	ross.mclauchlan@wyliebisset.com
Senior Manager	Stephen Pringle	Senior Internal Audit Manager	stephen.pringle@wyliebisset.com
Senior Auditor	Jennifer Hazel	Internal Audit Senior	jennifer.hazel@wyliebisset.com

Borders College			
Key Contact	Pete Smith	Vice Principal - Finance & Resources	psmit@borderscollege.ac.uk
Key Contact	Connor Bradley	Interim ISLT Manager	cbrad@borderscollege.ac.uk
Key Contact	Pravin Chandy	Interim Head of Finance	pchan@borderscollege.ac.uk
Key Contact	Martin Stainer	Asset Management Co-ordinator	mstai@borderscollege.ac.uk

Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.

APPENDICES

A GRADING STRUCTURE

For each area of review we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit Committee and addressed by senior management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of Review

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Scope of Review

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- Appropriate authorisation is granted prior to any of the College's assets being disposed of.
- There are procedures in place to ensure that data is wiped prior to any IT equipment being disposed of.
- There is due consideration given to the environmental impact when disposing of electronic and electrical equipment.
- The College holds adequate insurance cover to protect against the loss, theft or damage of its assets.
- The College's assets, equipment and stores are managed and controlled in line with the requirements of the SPFM.

- Where the fixed asset register is independent of the accounting system, there are processes in place to ensure that the information contained in the accounting system is accurate.

Our approach to this assignment will take the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of Scope

There is no limitation of scope.

Audit Approach

Our approach to the review will be:

- Discussion with relevant staff to confirm the current arrangements.
- Establishing whether or not staff are adhering to these arrangements. This will be done via sample testing.
- Review and evaluation of asset management policies and procedures.
- Testing as appropriate.

Potential Key Risks

The potential key risks associated with the area under review are:

- Where asset registers are not accurate or up to date, there is no comprehensive list of the assets controlled by the organisation. There is therefore a risk that the organisation is unaware of what assets it holds and where these are held. and may therefore be unaware of any loss or theft.

- There is no record of "attractive" items which fall below the capitalisation threshold. The College may therefore be unaware of the theft of any of these items.
- The security arrangements in place are inadequate. As a result, there is a lack of control maintained, increasing the risk of loss or theft to the College.
- New assets or attractive items of equipment are subject to loss or theft prior to being formally recorded on the Colleges systems.
- Assets are disposed of despite still being of use or value to the College.
- Where IT equipment is not wiped prior to being disposed of, confidential data may fall into the hands of unauthorised individuals. This could lead to a potential breach of the Data Protection Act.
- Electrical and electronic equipment is not disposed of in an environmentally friendly manner.
- Where adequate insurance cover is not held, the organisation may not be fully recompensed in the event of loss, theft or damage to any of its assets.
- College assets are not managed and controlled in accordance with the requirements of the SPFM.
- The fixed asset balances held within the accounting system are inaccurate.