

# ARGYLL & BUTE COUNCIL

## Internal Audit Section

### INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CHIEF EXECUTIVE'S UNIT
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF DISPOSAL OF EQUIPMENT <£10,000
AUDIT DATE	MARCH 2016

2015/2016



## **1. BACKGROUND**

This report has been prepared as a result of the Internal Audit review of Disposal of Equipment with a value of £10k or less across the Council as part of the 2015/16 Internal Audit programme.

The Council Constitution - Financial Regulations states that;

5.6 – Redundant and surplus stocks and items of equipment will be disposed of by competitive tender under arrangements approved by the Head of Strategic Finance, except where the Executive Director concerned is of the opinion that the income likely to accrue from the disposal is less than £10,000, in which case the Executive Director concerned may dispose of the surplus so as to ensure that any reasonable value may be realised.

5.12 – All vehicles surplus to the requirements of the Council will be disposed of by competitive tender under arrangements approved by the Executive Director - Development and Infrastructure Services.

## **2. AUDIT SCOPE AND OBJECTIVES**

The objective of the audit was to review policies and procedures in place and their practical application.

A sample of obsolete plant, vehicles, furniture & equipment, with a value of £10k or less, were tested. Internal Audit undertook site visits as required.

## **3. RISKS CONSIDERED**

Failure to maximise income opportunities

Failure to utilise existing Council resources

Incurring of unnecessary disposal/storage costs

Increased risk of mis-appropriation

Failure to comply with Council Constitution

Failure to comply with legislation (WEEE & Data protection)

#### 4. AUDIT OPINION

The overall level of assurance given for this report is Substantial, however there a number of elements of residual risk which are above an acceptable level and require to be addressed within a reasonable timescale.

Level of Assurance	Reason for the level of Assurance given
<b>High</b>	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
<b>Substantial</b>	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Limited</b>	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
<b>Very Limited</b>	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p><b>High</b> - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p>
<p><b>Medium</b> - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p>

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## **5. FINDINGS**

The following findings were generated by the audit:

### **Council Constitution**

As detailed above, the Council has an overarching policy in place within the constitution that places responsibility for disposal of assets, with a residual value of 10k or less, under the remit of the relevant Executive Director. This policy is very general and does not provide clear guidance to management and staff.

### **Recommendation**

This overarching policy should be further developed and defined to give clearer guidance to management and staff when disposing of assets in order to comply with relevant legislation and achieve best value for the Council.

### **ICT Equipment**

The ICT section, within Customer & Support Services, is required to comply with the Data Protection Act and Waste Electrical and Electronic Equipment (WEEE) regulations when they dispose of equipment. Following a tendering exercise in 2013, ICT have a 3 year contract with Arrow Value Recovery UK LTD (formerly Flection) to uplift obsolete Corporate and Education ICT equipment and dispose of, or resell, this equipment in line with legislation. Certificates of data removal and destruction are provided to evidence this. Any income generated from sale of assets is credited to the Council against the charge for uplift/disposal; the resale value depends on current market, age and condition of equipment. Income received is used to fund ICT modern apprenticeship posts and training. Disposal certificates were not readily available and roles and responsibilities were not clearly defined.

## **Recommendation**

In accordance with contractual arrangements for disposal of assets, robust procedures and processes are in place; however consideration should be given to the development of lower level procedures to cover areas such as record keeping and roles and responsibilities.

### **Office/School Furniture & Equipment**

An informal process is in place where disposal of obsolete office and school furniture and equipment is delegated to individual services and in the case of Schools, individual Head teachers. Surpluses are first informally offered for use elsewhere within the Council and then to the 3<sup>rd</sup> sector. Disposal takes place only when all other options have been exhausted. It was noted that there is an increased surplus of furniture and equipment following recent rationalisation programmes. Surplus furniture is often retained in situ until of use elsewhere, however some items have been retained for many years and are deteriorating in condition. There is currently a proposal for a centralised furniture and stationery ordering process that would further promote the recycling and re-use of existing resources.

A submission has been put before the Policy and Resources Committee on 17 March 2016 which outlines the protocol to be followed regarding the disposal of civic furniture and memorabilia which are surplus to requirements.

## **Recommendation**

The informal protocol in place to recycle old office/school equipment follows good practice and storage costs are kept to a minimum by retaining furniture within unused council buildings. However it would be of benefit to have documented policies and procedures in place to formally outline the disposal process.

### **Roads Stores**

Internal Audit visited Lochgilphead Roads Store and were advised that there is neither an agreed process nor documented procedures in place to remove obsolete items from the Roads Store. Only drainage materials are recorded as stock items, all other items are procured for specific jobs and are charged as such at point of purchase, and therefore, not reflected as stock items. Any surplus from jobs is retained to facilitate future repair work although some materials have remained within the Roads store for several

years with little movement. There is a large quantity of obsolete road signs and some other items that may have a small re-sale/scrap value.

### **Recommendation**

Processes should be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.

### **Lighting Stores**

Internal Audit visited Lochgilphead lighting store and were advised that items had been held in stock for over 10 years without any movement. Staff are unaware of any procedures for removal of obsolete stock and therefore stock is retained indefinitely. Any stock that is no longer of use at one store is transferred to another where they can be of use. It was noted on the site visit that there are 2 large containers of used street lighting bulbs which need to be disposed of professionally due to gas content, however following a change of contractor there is no longer an arrangement in place to uplift and dispose of the bulbs upon receipt of new delivery. It was also noted that the storage container for street lighting bulbs was accessed using the only key that is kept under the access ramp in front of the door.

### **Recommendation**

Processes should be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.

### **Recommendation**

Management should review arrangements for storage and disposal of used light bulbs containing gas as a matter of urgency, as these obsolete bulbs pose a health & safety risk.

### **Recommendation**

Management should review arrangements for access to container for street lighting bulbs to ensure secure access.

### **Horticultural Stores**

Internal Audit visited Lochgilphead horticultural store and were advised that when equipment is no longer functional it is stripped and used for parts for operational equipment. When all useable parts have been removed, equipment is retained on site until uplifted. Internal Audit has been advised that there has been no uplift to date.

### **Recommendation**

Processes should be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.

### **Fleet Management**

All fleet vehicles are recorded on Tranman application, including purchase dates, costs, maintenance, and disposal information. Fleet management follow a process for disposal of fleet vehicles/equipment when they reach the end of their useful life. Fleet vehicles that are no longer operational are used as donors for parts for other vehicles of the same and then when all useful parts are exhausted vehicles are put to market/auction.

### **Recommendation**

Fleet management follow a robust process when disposing of assets however whilst there are comprehensive system notes in place the process should be documented in a procedure note.

## **6. CONCLUSION**

This audit has provided an overall Substantial level of assurance, however there a number of elements of residual risk which are above an acceptable level and require to be addressed within a reasonable timescale. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There was 1 high and 7 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are 2 low recommendations which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the

recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to all staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.



**APPENDIX 1 ACTION PLAN**

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
<b>1. Disposals of used light bulbs – Street lighting stores</b>		<b>High/ Medium or Low</b>		
It was noted on the street lighting store visit that there are 2 large containers of used street lighting bulbs which need to be disposed of professionally due to gas content, however following a change of contractor there is no longer an arrangement in place to uplift and dispose of the bulbs, upon receipt of new delivery	Failure to safely store and dispose of used light bulbs may lead to non-compliance with WEEE legislation and staff/public injury resulting in reputational and/or financial damage.	High	Management will review arrangements for storage and disposal of used light bulbs containing gas as a matter of urgency, as these obsolete bulbs pose a health & safety risk.	<b>Head of Roads and Amenity Services</b>  <b>30 September 2016</b>
<b>2. Council Constitution – Disposal arrangements</b>		<b>High/ Medium or Low</b>		
The current overarching policy is very general and does not provide clear guidance to management and staff.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective	Medium	The overarching policy will be further developed and defined to give clearer guidance to management and staff	<b>Head of Governance and Law</b>  <b>30 September 2016</b>

	operations resulting in non-compliance with current agreed practice.		when disposing of assets in order to comply with relevant legislation and achieve best value for the Council.	
<b>3. Disposal of Office Furniture/Equipment</b>		<b>High/ Medium or Low</b>		
There is an informal protocol in place when disposing of obsolete office furniture and equipment, however this is not documented.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with current agreed practice.	Medium	Documented policies and procedures will be put in place to formally outline the disposal process.	<b>Head of Customer and Support Services</b>  <b>31 July 2016</b>
<b>4. Disposal of School Furniture/Equipment</b>		<b>High/ Medium or Low</b>		
There is an informal protocol in place when disposing of obsolete school furniture and equipment, however this is not documented.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with current agreed practice.	Medium	Documented policies and procedures will be put in place to formally outline the disposal process.	<b>Head of Customer and Support Services</b>  <b>31 July 2016</b>

<b>5. Disposals – Road Stores</b>		<b>High/ Medium or Low</b>		
Staff are unaware of any procedures for removal of obsolete items and therefore retained indefinitely.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in excess storage costs and loss of potential income.	Medium	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	<b>Head of Roads and Amenity Services</b>  <b>30 September 2016</b>
<b>6. Disposals – Lighting Stores</b>		<b>High/ Medium or Low</b>		
Staff are unaware of any procedures for removal of obsolete stock and therefore stock is retained indefinitely.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in excess storage costs and loss of potential income.	Medium	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	<b>Head of Roads and Amenity Services</b>  <b>30 September 2016</b>

<b>7. Key Security – Lighting Stores</b>		<b>High/ Medium or Low</b>		
The storage container for street lighting bulbs was accessed using the only key that is kept under the access ramp in front of the door.	Failure to secure items in a safe environment may lead to theft resulting in financial loss.	Medium	Management will review arrangements for access to container for street lighting bulbs with a view to ensuring secure access.	<b>Head of Roads and Amenity Services</b>  <b>30 September 2016</b>
<b>8. Disposals – Horticultural Stores</b>		<b>High/ Medium or Low</b>		
When equipment is no longer functional, and has been stripped of all useful parts, it is retained on site for uplift/disposal. There has been no uplift to date. This process is not formally documented.	Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in excess storage costs and loss of potential income.	Medium	Processes will be developed and documented in a procedure note to give clear guidance to management and staff when disposing of assets in order to achieve best value and free up storage space.	<b>Head of Roads and Amenity Services</b>  <b>30 September 2016</b>



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