



Internal Audit Report

OPERATIONALSERVICES

Review of Procurement for Fleet

MAY 2009

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1 INTRODUCTION

- 1.1 This report has been prepared as a result of the Internal Audit review of Procurement for Fleet operations within the Operational Services Department. Management responsibility is directed through Facility Services and the fleet operation is controlled by the Fleet Management Section. The audit of Procurement for Fleet was planned in the audit programme for 2008 – 2009.
- 1.2 Facility Services provide a fleet management service to the Council headed by the Waste and Fleet Manager and supported by a Fleet Inspector located at the Manse Brae offices in Lochgilphead with workshop staff located at units throughout Argyll & Bute. There are approximately 425 fleet items under management of which 84 are plant and equipment with the remainder vehicles of a variety of types ranging from small private cars to large specialist trucks.
- 1.3 The fleet management service management at Manse Brae have regular direct contact with all Services in relation to their vehicle, plant and equipment requirements.
- 1.4 The annual capital cost (excludes leasing cost) of replacing fleet assets is of the order of £1.5m. This is initially purchased outright with a retrospective lease/buy decision made when Strategic Finance, Capital Accounting Section review the merits of leasing at regular intervals during the year.
- 1.5 Scotland Excel negotiate procurement contracts with various vehicle and plant suppliers and the Council will purchase direct when the sourcing decisions have been agreed.
- 1.6 The brief for Internal Audit was to identify good practice in fleet procurement and management identifying any gap between good practice and our current procedures and provide an action plan to address the difference. In doing so it was envisaged that a template document would be developed to provide a business case for future individual fleet procurement.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to:
 - Produce an action plan to address good practice shortcomings in Fleet management with particular emphasis on procurement; and
 - Develop a Business Case Template for use by Services and/or Fleet Management for individual fleet item procurement.
- 2.2 In order to satisfy the above objectives we employed desk top research techniques and management enquiry to determine the elements of good practice in operating an effective fleet procurement and management service.
- 2.3 We identified by enquiry and review of system and procedural documents

the present processes and quantified the gap between good practice and current practice.

- 2.4 The actions set out in the Fleet Management Service Plan will be considered where they impinge on the procurement of fleet assets to identify issues which will require to be addressed to provide the data required to populate a framework document business case.

3 GOOD PRACTICE

- 3.1 The recently issued Scottish Procurement Policy Handbook published in response to The Review of Public Procurement in Scotland provides an overarching statement of the fundamental rules, behaviours and standards applicable to public procurement in Scotland. The Handbook also refers to the Scottish Procurement Competency Framework which has been developed to complement staff development programmes.

4 CORPORATE GOVERNANCE

- 4.1 The Review of Public Procurement in Scotland recommended that organisations confirm annually that they comply with minimum standards of governance and accountability for procurement.

5 MAIN FINDINGS

- 5.1 The external hire desk operates independently of the Fleet Management section and the majority of the items being hired are also included within the Council's fleet. It has been confirmed that the external hire desk operation will be incorporated into the Fleet Management section with effect from 1 April 2009.
- 5.2 We examined the individual fleet item utilisation figures for the period 1 April to 30 November 2008 generated from the Amatics system and found that generally the average fleet utilisation figures are at an acceptable level of in excess of 60% with the exception of private cars and plant (53.3 and 52.24% respectively). We are advised that the Amatics system is to be replaced by Fleetstar an alternative offered by the same supplier.
- 5.3 Generally replacement of fleet items occurs with no business case being presented even in the case of the more poorly performing assets.

6 ACTION PLAN and RECOMMENDATIONS

- 6.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of departmental management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed

timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

- 6.3 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 fundamental, material or minor. The definitions of each classification is set out below:-

High - 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;

Medium - 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;

Low – Observations 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.

- 6.4 Two recommendations of high priority were identified as a result of the audit. The recommendations are shown in the action plan set out in Appendix 2.
- 6.5 At 2.1 above an objective of the audit was to identify good practice and prepare an action plan to address any shortcomings. This is included at Appendix 4 for future reference but, due to complexity and the organisational nature of some of the decisions required, does not form part of the Audit Action Plan.

7 AUDIT OPINION

- 7.1 Based on the findings we can conclude that the controls in place in respect of Fleet Procurement procedures are lacking largely because the assets managed are not owned or the direct responsibility of the Fleet Management Section thus restricting control and accountability; and the lack of comprehensive capital planning and management guidelines until 2008.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

- 8.1 Thanks are due to all staff within the Fleet Management and External Hire Sections of Operational Services at Manse Brae, Lochgilphead.
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Appendix 1 1.1 to 1.3	High	External hiring of items held within the Council's fleet takes place without reference to the availability of fleet items as there is no operational link between the Hire Desk and Fleet Management. As a result external hiring is likely to take place unnecessarily. This will be particularly so in the low utilisation fleet items such as plant and private cars.	Asset responsibility for all Council plant and private cars should be transferred to Fleet Management. The plant and private car fleet would then be deemed a hire fleet available to Services internally for short/medium term hire at published hire rates. This being a cost recovery exercise only hire costs should be less than external hire rates and low utilisation items will be uneconomic to retain on the fleet. This should have the effect of reducing external hire costs, probably a smaller fleet and improved utilisation.	Head of Facility Services & Head of Roads and Amenity Services.	Progressively over 18 months commencing 1 April 2009.
2	Appendix 1 1.4 to 1.7 and 1.9	High	(a) The replacement of fleet assets is carried out by Fleet Management provided the	When any fleet item is being considered for replacement its utilisation history must be	Head of Facility Services.	1 April 2009 and 1 April 2010.

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Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			<p>Client Service has a capital budget for replacement and the item has been operated satisfactorily over its useful life. When replacing a fleet item Fleet Management provide the Client Service with a replacement cost based on vehicle contracts set up by Scotland Excel. If the proposed vehicle price is within budget and the client service agrees an order will be placed.</p> <p>(b) The Amatics system utilisation percentages are calculated on daily usage and even if a vehicle works only 4 hours in a day that equates to 100% utilisation. To counteract this we operated an assumed hours for different levels of daily use and calculated a utilisation percentage based on hours in use. We further noted that hours used did</p>	<p>reviewed and if the trend utilisation percentage is below 45% (from 1 April 2009) 60% (from 1 April 2010) a detailed explanation must be given in the business case as to why replacement is necessary. A business case should be presented by the Client Service fully justifying why replacement is necessary. A specimen format business case is attached (see Appendix 5). Required data for such a business case is the historical utilisation data of the vehicle being replaced for comparison with the proposed replacement vehicle. If and when the Client Service Business Case is approved Fleet Management should prepare an Equipment and Vehicles Life Cycle Cost Comparison for each make and model</p>		

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			not mean hours driven and depending upon the operational purpose of a vehicle this could have a marked difference on the real utilisation. For this reason it would be wrong to base management decisions solely on reported utilisation figures.	being considered as a replacement (see Appendix 5a and the Fleet Item Costing and Customer Authorisation Form) and the final decision “signed off” by the Head of Service.		
3	Appendix 1 1.8	Medium	Vehicles were found to be operating in a different geographical area from that noted in the Amatics system as their home base or section.	A method of ensuring that Fleet Management are advised of inter department or section transfers of fleet items by Services should be devised and introduced to maintain the integrity of the hierarchical reporting within the Amatics system.	Waste and Fleet Manager, Facility Services.	May 2009
4	Appendix 1 1.6	Low	Discrepancies within the hours worked by some fleet items within an operational report and a management report within the Amatics system questions the integrity of the reporting.	The Amatics reporting systems should be reviewed to identify whether report discrepancies are inherent system faults or simple recording errors and in either event procedures introduced	Waste and Fleet Manager, Facility Services.	Prior to the implementation of Fleetstar

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Action Plan no..	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
				to correct the situation. In view of the proposal to replace the Amatics system with Fleetstar it will be as important to verify the integrity of the Fleetstar Reports.		