



FINAL

Internal Audit Report

Chief Executives Unit – Strategic Finance

**Review of Contract Hire and Operating
Leases 2008/09**

June 2009

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1 INTRODUCTION

- 1.1 This report has been prepared as a result of the Internal Audit review of Contract Hire and Operating Leases as part of the 2008/09 Internal Audit programme. This work has been carried out on a review basis to enable us to assess the overall control environment and identify any aspects which will be subject to more detailed testing in a future period.
- 1.2 Almost 80% of operating lease payments relate to Vehicles and an on-going audit on Fleet Procurement, has recognised that asset responsibility for all Council plant and private cars could be transferred to Fleet Management. The plant and private car fleet would then be deemed a hire fleet available internally across Council Services for short/medium term hire at published hire rates. This would assist in achieving operational efficiencies, as well as leading to the development of a formal Procurement/Funding Strategy.
- 1.3 This review therefore focussed on the controls over the underlying accounting records for contract hire and operating leases, and associated matters such as determining lease or purchase options when Chrysler are involved in evaluating the cost of vehicles.

2 AUDIT SCOPE AND OBJECTIVES

The specific objectives of this audit were to:

- Review 2007/08 Accounts disclosure for vehicle Operating Lease payments, checking that payments have been reconciled with underlying lease agreements and any variances have been explained
- Assess and report on progress that has been made in adopting recommendations arising from the 2007-2008 audit

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. Relevant risks identified within the Strategic Risk register are as follows:

- Failure to maximise the benefits of Best Value
- Failure to realise efficiency gains
- Inefficient use of Council assets and consequent financial loss
- Failure to have a robust internal control process and system.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

Based on our testing we are satisfied that:-

- there is a formal procedure for evaluating vehicle lease or purchase options, with the outcomes being formally minuted,
- finance leases are being correctly determined in accordance with SSAP21, with the appropriate accounting treatment being adopted,
- leased vehicles are appropriately identified on the asset register and can be checked to the underlying lease documentation,

Our testing revealed that the amounts paid for vehicles under finance leases, amounting to £418,000, were also included in the amounts paid under operating leases. This accounts disclosure issue was drawn to the attention of the Finance Manager – Development Services to ensure that the duplication is eliminated from the 2008/09 Accounts.

In addition, we are satisfied that recommendations arising from the 2007-2008 audit have been addressed or are subject to on-going audit follow-up review, which is being regularly reported to the Audit Committee.

6 RECOMMENDATIONS

Our only recommendation arising from this audit relates to checking the disclosure of amounts paid to lessors in the Annual Accounts, which we understand is being addressed.

7 AUDIT OPINION

Based on our findings we can conclude that there are satisfactory procedures in place for evaluating, controlling and recording vehicle leases.

8 ACKNOWLEDGEMENTS

Thanks are due to the Treasury Accounting team for their co-operation and assistance during the Audit and the preparation of the report.

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.

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