



Internal Audit Report

FINAL

Chief Executive's Unit – Strategic Finance

Review of Contract Hire and Operating Leases

April 2010

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Contract Hire and Operating Leases as part of the 2009/10 Internal Audit programme.

A review of contract hire and operating leases involves the Development Services Finance Team who has responsibility for the liaison with the Council's Leasing Consultant. The team also has responsibility for capital accounting. This does not involve the capital appraisal which is carried out by the appropriate service requiring the asset. Where an appraisal indicates that leasing would be an appropriate procurement route then Strategic Finance, Development Services Finance Team should be consulted to determine the approach to obtaining the best leasing arrangement. The process applies in particular to vehicles and heavy plant items. The present arrangement is that these are acquired by outright purchase and the capital accounting team advised of the acquisition. From time to time during each financial year a summary of vehicles and plant acquired in the previous few months is prepared and provided to the Council's Leasing Consultant, Chrystal Leasing who as advisers to the Council will suggest appropriate parcels of assets and appropriate funding agencies who could be approached to quote for the offer of leasing facilities. This process is subject to the Council's procurement guidelines for contracts for goods and services (see Council Constitution) and involves the selection of tenderers; the issue and receipt of tender documents and their evaluation.

Each financial year there is a need to assess each new leasing arrangement and determine whether it satisfies the criteria for a finance or operating lease.

2 AUDIT SCOPE AND OBJECTIVES

The specific objectives of the audit will be to:

- By enquiry and updating of systems notes in previous reviews determine the systems in place in respect of contract hire and operating lease procurement,
- Check that finance and operating leases have been appropriately identified and recorded,
- Determine compliance and/or substantive testing to ensure that systems are followed and provide an adequate control environment.

Almost 80% of operating lease payments relates to Vehicles which are purchased outright initially and at regular intervals during the financial year considered as a leased or contract hire option. This process is conducted by public tender with the assistance of a leasing consultant and the decision is made on financial rather than operational judgements.

This review will therefore focus on the controls over the decisions made for contract hire and operating leases, and associated matters such as the

costing of savings calculated when Chrystal are involved in sourcing new leases or negotiating the cost of damages to vehicles.

3 RISK ASSESSMENT

Areas of risk affected by Contract Hire and Operating Leases are ensuring correct figures are incorporated in the Annual Accounts and that Finance Leases have been recognised; leases are entered into following the appropriate contract procurement standing orders.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

Internal Audit found that the internal controls and checks were operating satisfactorily.

6 RECOMMENDATIONS

No recommendations were identified as a result of the audit.

7 AUDIT OPINION

The auditor is satisfied that, based on the findings, internal controls are adequate and procedures are being followed appropriately.

8 ACKNOWLEDGEMENTS

Thanks are due to the Finance Section, Development Services for their co-operation and assistance during the Audit and the preparation of the report and action plan.

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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