



Internal Audit Report

FINAL

Chief Executive's Unit – Strategic Finance

Review of Contract Hire and Operating Leases

May 2012

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 2011/12 Internal Audit programme.

The adoption of International Financial Reporting Standards (IFRS) by local government in 2010/11 raised issues for the Council in relation to how they account for leases.

The Council therefore has undertaken an exercise for the 2010/11 Accounts to reassess all the leasing transactions they have entered into in the past and form part of their current accounts, as well as prospective leases, to ensure that under IFRS they are properly classified as finance or operating leases.

2 AUDIT SCOPE AND OBJECTIVES

As part of the 2011/12 Audit Plan a review of operating leases within the Council was carried out to test check that they are properly quantified. Motor Vehicles constitute more than 60% of the current year operating lease payments for Accounts disclosure and our testing has therefore been restricted to this area.

- Review the system in place to identify all the operating leases the Council has and test check what level of payment they make on motor vehicle leases.

3 RISK ASSESSMENT

Areas of risk affected by Contract Hire and Operating Leases are ensuring that Finance and Operating Leases have been correctly identified and that figures are incorporated correctly in the Annual Accounts.

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 a part disposal on a multiple contract had not been identified indicating that the operating lease payments in the year were overstated by £15,000 approximately. The Accounts disclosure note is to be amended for the disposed item, which is anticipated to be an isolated error. We have however recommended that the payments quantified for the Accounts note should be formally reconciled with the general ledger payments for next year's accounts.

6 RECOMMENDATIONS

One recommendation of low priority was 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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