



Internal Audit Report

CHIEF EXECUTIVE'S UNIT,
STRATEGIC FINANCE

FINANCE AND OPERATING LEASES

FEBRUARY 2013

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of the policies and procedures in respect of Finance and Operating Leases maintained by Strategic Finance, Chief Executive's Unit. The audit forms part of the 2012/2013 Internal Audit planned programme of audits.

Reviews of specific aspects of the Council's leasing transactions have been undertaken in previous years by Internal Audit as part of the annual audit plans. The work undertaken during 2012/13 will form year one of a new 3 year programme.

Key transactions reported for the financial year ended 31 March 2012 are summarised below:

DATA – Notes to Financial Statements	Value
Finance leases; amounts paid to Lessors	£304k
Operating leases; amounts paid to Lessors	£1,099k
Finance leases; net value of assets held	£42k
Finance leases; payments outstanding	£42k
Operating leases; payments outstanding	£649k

2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review of lease policies and procedures and a limited amount of sample testing of transactions and records to ensure policies and procedures are appropriate, adequate and being complied with. The areas reviewed included:

- High level asset leasing procedures and guidelines are in line with IFRS and ensure effective management of leasing.
- Leasing agreements and transactions are correctly identified, recorded, managed and reported.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The areas identified were:

- SR10 Inefficient use of Council Assets

- SR13 Failure to comply with new legislation, regulations or statutory responsibilities

These risks have been considered within the scope of our audit.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

- 5.1 Discussion with officers and review of documents confirms that leasing procedure/guidance notes are available although not subject to annual review.
- 5.2 Review of the guidance note confirms it includes high level reference to the categories of leases as required by IFRS/CIPFA.
- 5.3 Review of operational procedures and records confirms that officers are aware of leasing requirements. Responsibilities, procedures and objectives are not co-ordinated or documented.
- 5.4 Testing confirms that values included in the disclosure notes to the Financial Statements agree to supporting records.

6 RECOMMENDATIONS

Two recommendations of Medium priority and one of Low priority were identified as a result of the audit. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager, Corporate Support.

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.

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 definition of each classification is set out below:-

High - 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;

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 - 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.

7 AUDIT OPINION

Based on our findings we can conclude that there are appropriate operational procedures in place to ensure that the management of leasing is adequate although the level of understanding and control would be further enhanced by the implementation of the recommendations set out in the agreed management action plan attached at Appendix 2.

8 ACKNOWLEDGEMENTS

Thanks are due to Strategic Finance and Development and Infrastructure Staff for their co-operation and assistance during the course of 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.

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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	Leasing records in differing formats are maintained by numerous departments but responsibilities, procedures and objectives are not coordinated or documented to ensure records and controls are effective and efficient.	Medium	The range of records and controls maintained by different departments in respect of lease agreements and transactions should be reviewed and, where appropriate, revised or consolidated to avoid unnecessary duplication and ensure controls and reconciliations are appropriate and effective.	Finance Manager, Corporate Support	30/9/2013
3	The cost or benefit of leasing capital assets is not currently reflected in the revenue budgets / accounts of individual Services.	Medium	The process of accounting / budgeting for lease payments should be reviewed.	Finance Manager, Corporate Support	30/9/2013