

Argyll and Bute Council
Internal Audit Report
October 2023
Final

**Fleet Management
Hire of Vehicles**

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	0	2	3

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1. Executive Summary

Introduction

1. As part of the 2023/24 internal audit plan, approved by the Audit & Scrutiny Committee in March 2023, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to hire of vehicles.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. A review of Fleet Management – Hire of Vehicles has been planned as part of the 2023/24 Internal Audit programme.
5. Arrangements for all vehicles and plant hired to the Council are made via the internal hire desk. The Council owns or leases approximately 600 fleet assets and supplements this by hiring a variety of vehicles ranging from cars to specialist trucks. The total value of external hires for the financial year ending 31st March 2023 was £5.6m against a budget of £4.8m. A number of these hires are attributed to an increased capital programme which has required additional items necessary for operational delivery.
6. The volume of fleet vehicles, plant and equipment owned by the Council has reduced due to lack of capital to replace items that are no longer viable to maintain, therefore spot-hire is used to support front line service operations. The current financial pressures on departments necessitates that all hires must be absolutely necessary and not be used as a solution to inadequate resource planning.
7. The Council has in place a framework arrangement with Scotland excel who negotiate procurement contracts with vehicle/plant hire suppliers.

Scope

8. The scope of the audit was to review the arrangements for the authorisation and use of hire vehicles, establishing whether best value is achieved as outlined in the Terms of Reference agreed with the Fleet performance Manager Services on 10th July 2023.

Risks

9. The risks considered throughout the audit were:
- Audit Risk 1: There is no guidance document in place for external hire vehicles
 - Audit Risk 2: External hires are not authorised
 - Audit Risk 3: Best value is not achieved
 - Audit Risk 4: Appropriate arrangements are not in place for performance monitoring and reporting

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
11. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Recommendations

12. We have highlighted two low priority and three value for money recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- Hire Desk Policy document to be updated and agreed to ensure the Policy reflects current practice.
 - Contractual arrangements should be recorded for all hires in the Tranman Fleet hire system.
 - Authorisation to hire document should contain evidence that the service has checked and confirmed that suitable fleet items under their control are not already available prior to hire request.
 - Reporting arrangements should be introduced to provide explanations where hired items exceed an agreed return date.
 - Mechanisms for evaluating financial options such as operating lease or outright purchase should be considered for hires substantially over their return date.
13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
CO1	There is appropriate arrangements/guidance in place for external hires	Audit Risk 1	Reasonable	Fleet services have in place a Hire Desk Policy that outlines guidance/procedures that should be followed in regard to hire of vehicles/plant. The document was last reviewed in 2010 and should therefore be updated to ensure it reflects current practice.
CO2	All external hires are properly authorised and best value is achieved	Audit Risk 2 Audit Risk 3	Reasonable	External hires have been properly authorised prior to hire. Checks that items are not already available for use within the service should be evidenced on authorisation document. Where appropriate, hires are contracted for using the Scotland Excel contractual terms and conditions. Mechanisms for evaluating financial options such as operating lease or outright purchase should be considered for hires substantially over their expected return date.
CO3	Appropriate arrangements are in place for performance monitoring and reporting	Audit Risk 4	Substantial	Reporting on reasons where hires substantially exceed their expected return date should be implemented. Monthly reconciliations are carried out to ensure that all hires captured on Tranman are properly recorded in the financial ledger.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is appropriate arrangements/guidance in place for external hires

16. Fleet services have in place a Hire Desk Policy that outlines guidance/procedures that should be followed in regard to hire of vehicles/plant. The Policy outlines recommendations such as :

- only authorised personnel can request the hire
- departments should ensure that the item requested for hire isn't already available within the organisation

17. The Hire Desk Policy was last reviewed in 2010. The current Policy should be reviewed and agreed to ensure it reflects current arrangements.

Action Plan 1

All external hires are properly authorised and best value is achieved

18. All external hires are initiated via an authorisation form signed by the authorised manager. The largest percentage of hires originate from Roads and Infrastructure services i.e. accounting for approximately 95% of all hires.
19. A desktop exercise was carried on a sample of 30 hires chosen at random to ensure that:
- all hires have been properly authorised
 - prior to initiating the hire, services establish whether the required item is already under their control and available to use (as required in the current Policy document).

All hires had been properly authorised prior to hire, however, there was no evidence that services had established if the item required was already under their control and available to carry out the work required as recommended in the Hire Desk Policy. Consideration should be given to amending the hire authorisation document to include a section that confirms the necessary checks have been carried out.

Action Plan 3

20. Once approved, external hires are initially captured on the Tranman Fleet Management System. The system captures a range of data concerning the hire including:
- contract reference
 - description of item hired
 - start of hire date
 - expected length of hire in days
 - date when hire actually ended
 - cost centre
 - supplier name
 - responsible person within Council
 - cost of hire
 - contract details e.g. Scotland excel
21. At the time of the review, there were 124 ongoing hires recorded on Tranman, each with a start date and expected return date recorded. A review of these ongoing hires noted that 101 are over their expected return date. Of the 101:
- 30 were less than 500 days over
 - 42 were between 500 and 1000 days over
 - 29 were 1000 days or greater over

There is currently no information available that explains the reasons why external hires are substantially over their expected return date.

Action Plan 4

22. It is a requirement under the International Financial Reporting Standards (IFRS) that from 2024 all items on hire over 365 days must be transferred to the balance sheet and depreciated over their useful life. A review of all ongoing hires currently over 365 days was carried out and those items are summarised below:

Year initially hired	Example of items hired	Total ongoing hire cost to Council
2013	2 Telehandlers	£207,767
2014	Excavators	£262,549
2015	Excavator/Lorry	£419,462
2016	Small Excavator	£86,345
2017	None	£0
2018	5 Tippers>3,500 kg	£217,760
2019	6 Tippers> 3,500kg	£161,168
2020	Welfare Vans	£480,930
2021	Panel Vans<=3,000kg, 7 Tippers>3,500kg, 2 Telehandlers	£217,596
2022	Panel Van, Tipper, Sweeper	£47,914
Total cost to the Council		£2,101,491

There is currently no mechanism that triggers an exercise where Financial Services considers whether cheaper long term options are available such as an operating lease or to purchase the item outright.

Action Plan 5

23. The Council participate in the Scotland Excel Fleet Hire Framework agreement for vehicle and plant hire. The framework covers a complete range of vehicles and plant which meet the council's hiring needs and where possible the hire desk will use suppliers who are signed up to this Framework. The benefits are for example :
- agreed hire rates for a wide range of plant and equipment used by the Council such as refuse collection vehicles, Gritters, plant excavation and sweepers
 - Scotland Excel terms and conditions (T&C's)
 - added value benefits agreed with individual suppliers
24. All hires taking place over the last 18 months were reviewed to identify what percentage used the Scotland Excel Framework, the information provided shows that approximately 64% by value of all hires take place utilising this Framework. In cases where the Framework was not applied, discussions with management confirmed that these cases arose where the local supplier was not signed up to the Framework and best value would not be achieved by sourcing elsewhere. In these instances the general Council

terms and conditions are applicable. It was noted a small number of hires on Tranman did not indicate which contractual arrangement had been applied to a particular hire.

Action Plan 2

Appropriate arrangements are in place for performance monitoring and reporting

25. All relevant departments are sent a list of ongoing hires and it is the responsibility of the service to review the list and advise the internal hire desk of any item that should be taken off hire. Internal audit confirmed that whilst departments are sent a list of ongoing hires there is no reporting arrangement in place for departments to explain why hires exceed expected return dates, e.g. hires exceeding 500 days as detailed in paragraph 21 above.

Action Plan 4

26. Hire of vehicles, plant and equipment for roads contracts is charged directly from Tranman to the specific contract via the TOTAL Costing System (as well as the financial ledger). Where items are unused but still on hire for roads contracts, the downtime is charged directly to an overhead account. In the financial year 2022/23 roads contracts were charged £2.3m in fleet hire charges, £100k of this related to time where the hire was not utilised directly against roads contracts and was therefore charged to an overhead account. This relates to an efficiency of 95.7%.
27. External hires are initially recorded within Tranman, from where a weekly feeder file is generated and electronically transferred to the general ledger. Monthly reconciliations take place to ensure that all hire costs are properly reflected in the financial ledger. Internal audit confirmed that the monthly reconciliation is properly carried out.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p>Hire Desk Policy</p> <p>The Hire Desk Policy was last reviewed in 2010. The current Policy should be reviewed and agreed to ensure it reflects current arrangements.</p>	Current practices may no longer be aligned to the content of the agreed Hire Desk Policy.	Fleet Services confirm that the Policy document will be reviewed and updated where appropriate.	Performance Manager, Fleet , Roads and Infrastructure Services 31 st December 2023
Low	2	<p>Contractual arrangements</p> <p>A number of hired items on Tranman did not indicate which contractual arrangement had been applied to the hire.</p>	Failure to note which contractual terms and conditions apply to a hire may lead to best value not being achieved	Going forward all hires will reflect the contractual arrangements agreed.	Performance Manager, Fleet , Roads and Infrastructure Services 31 st December 2023
VFM	3	<p>Checking of availability of items within Council prior to externally hiring.</p> <p>There was no evidence that services had established that an item already under their control was available within the Council prior to hiring. Consideration should be given to amending the hire authorisation document to include a section that confirms this check has been carried out.</p>	Failure to check the availability of items/vehicles within the council prior to externally hiring may lead to best value not being achieved.	Fleet Services will amend the document and advise relevant departments of the change.	Performance Manager, Fleet , Roads and Infrastructure Services 31 st December 2023
VFM	4	<p>External hires exceeding their expected return date</p> <p>Of the 124 current ongoing hires, 101 have exceeded their expected return, 29 items were over the return date by more than 1000 days. There is no document available that explains the reasons why these items have substantially exceeded their expected return date.</p>	Failure to report on why hires exceed their expected return date may lead to best value not being achieved	Roads and infrastructure services are currently under a review of all services and the recommendation will be assessed as part of the review.	Operations Manager, Roads and Infrastructure Services 31 st March 2024

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
VFM	5	<p>Evaluating whether long term hires should be leased or purchased outright</p> <p>There is currently no mechanism that triggers an exercise where Financial Services considers whether cheaper long term finance options are available such as an operating lease or for the Council to purchase an item outright.</p>	<p>In cases of long term hires failure to assess possible cheaper financial hire arrangements may lead to best value not being achieved.</p>	<p>Roads and infrastructure services are currently under a review of all services and the recommendation will be assessed as part of the review.</p>	<p>Principal Accountant, Roads and Infrastructure Services</p> <p>31st March 2024</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.