

Item: 5.4

Monitoring and Audit Committee: 23 September 2021.

Internal Audit Report: Vehicle and Plant Disposal.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on procedures and controls relating to disposal of vehicle and plant.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken an audit of procedures in place within the Council for disposal of obsolete vehicles and plant.

2.2.

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the procedures in place within the Council for disposal of obsolete vehicles and plant.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

Part of efficient fleet and plant management activity includes the disposal of vehicles and items of equipment at the end of their useful economic life.

3.2.

The disposal of obsolete assets is a necessary activity in order to avoid the build-up of vehicles and plant taken out of service and which do not have a further economic use to the Council.

3.3.

The objective of this audit was to review the processes within the Council for the disposal of vehicles and plant and that these processes comply with the Council's governance arrangements and good practice.

4. Audit Findings

4.1.

The audit provides adequate assurance that the processes and procedures relating to vehicle and plant disposal are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes eight medium priority recommendations within the action plan. There are no high-level recommendations made as a result of this audit.

4.3.

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no immediate financial implications associated directly with the recommendations in this report. However, it should be noted that a policy of replacing assets based on optimum planned asset lives may require additional capital funding. The audit report recommendations include the identification of the additional capital funding requirement that would allow such a policy to be established.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

Andrew Paterson, Chief Internal Auditor, extension 2107, email andrew.paterson@orkney.gov.uk.

Peter Thomas, Internal Auditor, extension 2135 email peter.thomas@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Report: Vehicle and Plant Disposal.



Internal Audit

Audit report

Vehicle and Plant Disposal

Draft issue date: 20 July 2021

Final issue date: 15 September 2021

Distribution list:	<p>Interim Head of Roads, Fleet and Waste Services</p> <p>Interim Executive Director of Environmental, Property & IT Services.</p> <p>Head of Finance</p> <p>Interim Chief Executive</p>
---------------------------	--

Contents

Audit Opinion	1
Executive Summary	1
Introduction	2
Audit Scope.....	2
Audit Findings	3
Action Plan.....	8
Key to Opinion and Priorities.....	11
Appendix A.....	12

Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

Our audit reviewed disposal processes and activity for obsolete assets of plant and vehicles at the Council for the period from 1 April 2017 to the report date.

Disposal of obsolete assets is a necessary activity in order to avoid the build-up of vehicles and plant taken out of service and which do not have a further economic use to the Council.

Our review has identified several areas of good practice including:

- the method used to dispose of obsolete plant and vehicles being appropriate to the surplus asset being disposed of,
- controls over receiving of money for assets sold, and
- a reduction in obsolete assets being held at the Council's yard within Hatston Industrial Estate.

We did however identify a disposal of 17 lots that took place with the successful bidder making bids covering several lots without clarity as to whether the Council should or would accept bids made covering groupings of lots. In one instance a bid for a group of lots was successful even though it obtained lower proceeds to the Council than the sale of the individual lots would have generated.

The report includes 8 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
8	0	8	0

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

Part of efficient fleet and plant management activity includes the disposal of vehicles and items of equipment at the end of their useful economic life. Some assets will have a residual value on disposal, which generates income to the Council and disposal decisions must be at the optimum stage in the context of their whole life costs.

There would also be a cost to the Council in keeping obsolete plant and vehicles should they be retained after being taken out of service.

The objective of this audit was to review the processes within the Council for the disposal of vehicles and plant and that these processes comply with the Council's governance arrangements and good practice. This includes, but is not limited to achieving best value, contract management, sustainability, and general probity throughout the process.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Scope

The scope of this audit includes a review of the following:

- Approved Policy for the identification and disposal of surplus or end of use plant and vehicles.
- The current processes of identification and selection of vehicles and plant for disposal.
- The method of disposal and process used, including the choice and appointment of disposal companies.
- The recording of vehicle and plant disposed of, including asset, insurance, and maintenance registers.
- The recording of monies due and received from disposals.

Audit Findings

1.0 Guidelines and Procedures

- 1.1 The financial regulations of the Council, at 19.5.1 state that *“guidelines and procedures on the disposal of obsolete or surplus assets are available on the Council’s website.”*
- 1.2 The Council’s website contains some guidance to the completion of Asset Addition and Asset Disposal forms when assets are acquired or disposed of but does not provide guidance over when and how assets should be disposed of.
- 1.3 It is recommended that guidelines and procedural documentation be developed and published on either the Council’s intranet hub or website. We have detailed some of the expected considerations to take place, as part of the options appraisal over when and how to dispose of surplus vehicles and plant, at Appendix A.

Recommendation 1

2.0 Processes carried out within the Council for the disposal of vehicles and plant.

- 2.1 Generally, obsolete vehicles and plant are disposed of when they are replaced. Replacement of assets follows a replacement schedule. The replacement schedule is formed from two sources, firstly from a vehicle and asset replacement plan which considers the “useful life outstanding” of each asset. The useful life outstanding is based on the normal expected life for the asset which will include its current condition, mileage, maintenance requirements, and suitability for purpose, and secondly directly from services where requirement changes or breakdown issues arise in the programme delivery year. The highest scoring items secure funding first, followed by other high scoring items in descending order until the allocated budget of £1,200,000 is expended. Items scoring less than the threshold score in any one year are considered for replacement in subsequent years. This procedure was adopted by the Council, following recommendation for its approval by the Policy and Resources Committee at its meeting of 20 September 2011.
- 2.2 The Council’s Corporate Asset Management Plan 2019 to 2023 reports an estimated replacement cost of its fleet of vehicles and plant used in the delivery of services to be around £16m. Since 2014/15 the capital budget for fleet and plant replacement has been £1.2m per annum. In very simple terms this equates to an overall average replacement period of just over 13 years. As vehicles age, they become more unreliable. Beyond a certain age repair costs and levels of downtime may increase dramatically.
- 2.3 We are advised that when vehicles are due for replacement, they are subjected to a Condition Survey which assesses whether its useful life can economically be extended.
- 2.4 We estimate, based on the proposed 2021-2024 replacement programme that large goods vehicles (LGV), being vehicles with a mass of over 3,500kg are scheduled for replacement approximately every 10 years on average. The shortest period being 7 years and the longest 17 years on the replacement programme between 2021-2024. Vehicles under 3,500kg are being replaced approximately every 9.4 years. Industry norms are around 7 to 10 years for LGVs and 5 to 7 years for smaller vehicles.
- 2.5 Within Orkney, longer useful lives for vehicles may be possible due to lower levels of mileage, however retaining vehicles beyond optimum lifespans runs the risk of them becoming uneconomical to run and maintain, and also in them becoming more unreliable.

- 2.6 The Council should, with reference to the optimum planned asset life for each category of vehicle, establish the ideal economical timeframe for their disposal and the additional capital budget requirement that would be necessary to allow asset replacement to take place in accordance with economical optimum asset lives. The Council should consider a vehicle disposal policy based on the vehicle economical useful lives to each vehicle type.

Recommendation 2

- 2.7 When considering annual and indicative future year plant and vehicle replacement programmes the Asset Management Sub-committee should be provided with data detailing vehicles and plant that are not within the programme but are outwith their optimal life spans.

Recommendation 3

- 2.8 The Financial Regulations of the Council, at 19.3.8. state that “all vehicles surplus to the requirements of the Council will be disposed of by public auction, or by such other method as the Head of Buildings and Facilities and the Head of Finance may jointly determine”. In operational practice the Head of Buildings and Facilities has not had any responsibility towards vehicles for some time and so roles should be updated within the Financial Regulations.
- 2.9 Sale by auction usually results in the minimum administration overhead and exposes the item for sale to a wider selection of potential buyers.
- 2.10 Generally, the choice of public auctioneer for the disposal of vehicles is determined on their anticipated value, which in turn is dependent on their condition and whether they are of a specialist nature.
- 2.11 During the early part of the review period, low value vehicles, that could be driven were disposed of by public auction at the local mart. For around the last 15 months the local mart has not carried out public auctions of vehicles.
- 2.12 Specialist and higher value vehicles have been sent for public auction to an auction house in Perth.
- 2.13 Sending vehicles to an auctioneer south incurs a transportation cost to Aberdeen which is borne by the Council and is in the region of £200 per vehicle. The Auctioneer in Perth could attract a larger number of potential bidders that may lead to higher proceeds obtained from its disposal. The Auctioneer claims to be used by 90% of Scottish councils for the disposal of assets. The Auctioneer maintains a website that allows for live bidding. Bids could of course be made by anyone, including local parties; however, they would need to incur the cost and effort of returning the asset back to Orkney.
- 2.14 Plant and vehicles that cannot be driven are sold by the Council, usually as scrap or in similar condition. During the earlier part of the audit’s review period, obsolete assets held at the Council’s yard, at Hatston Industrial Estate, were available for inspection. This required staff, on demand, to accompany the public around the yard. More recently photographs of each item of plant lotted have been available on the Council’s website.
- 2.15 Disposal methods have also included a small number of direct sales. One trade in was noticed, which was carried out just prior to the review’s period of focus.

3.0 Review of disposal of obsolete vehicles and plant

- 3.1 Our audit included an in-depth review of all vehicle and plant disposals made by the Council, where proceeds were in excess of £1,000. This reviewed 95% of disposals over the period by value.
- 3.2 The type of disposal and where applicable the auctioneer used, for each item reviewed, was, in the opinion of Internal Audit, appropriate for each obsolete asset, taking into account its value, the nature of the asset and availability of an auctioneer.
- 3.3 There were three transactions of obsolete assets for scrap reviewed.
- 3.4 The smaller of these three transactions was with a commercial entity within Orkney.
- 3.5 For the two larger transactions of scrap, we are advised that one, carried out in October 2018 was made on a direct tendering basis involving commercial enterprises both within and outwith Orkney with the successful tenderer being the one making the highest offer.
- 3.6 The other of the larger disposals of scrap items, carried out in October 2020 related to the sale of 17 lotted items, advertised in the Orcadian and on the Council's website, the latter containing photographs of each lot.
- 3.7 The lots detailed at 3.6 received bids from 21 parties, with a geographical split of 19 bidders being located within Orkney and 2 from mainland Scotland. 11 of the 21 bidders submitted a bid for only 1 lot, the remaining 10 bidders, made bids for between 2 and all 17 lots.
- 3.8 The advertisement stated, inter alia, "when submitting a tender, it is for all items in the lot" The advertisement did not make explicitly clear whether singular bids for several lots would or would not be considered. It is recommended that for any future lotting activity it is made clear whether singular bids for several lots would be considered or not.

Recommendation 4

- 3.9 The successful tenderer was one of two bidders who made bids covering all 17 lots. The successful tenderer's bids being largely in excess of the other.
- 3.10 The successful tenderer made two bids, one covering 6 lots and one covering the remaining 11 lots.
- 3.11 The total of the successful bidders two bids was greater than the sum of the highest bid for each of the 17 lots However, Internal Audit's calculations are that a further £3,317 of revenue could have been generated if only one of the successful tenderer's bids had been accepted for the 6 lots and 9 other tenders being accepted for the remaining 11 lots.
- 3.12 Internal Audit's review of documentation shows that the opportunity to assess the successful tenderer's bid in two parts was purely an oversight however there should be robust controls within the Council over how successful bidders to lots are determined.
- 3.13 It should be ensured that there is a separation of roles between Officers who receive and collate bids and Officers who determine which bids are successful.

Recommendation 5

- 3.14 It should be determined and documented which Officers have delegated authority to approve the successful bidders.

Recommendation 6

3.15 The processes in determining successful bidders, including the Officer determining successful bidders and the reason why the bidder was successful should be documented and records retained.

Recommendation 7

3.16 It should be considered whether further authority should be a requirement to the Council accepting any bids that do not generate maximum receipts, if this were to be allowed in exceptional circumstances.

Recommendations 8

4.0 Statistical Information.

4.1 A representation of proceeds from the disposal of obsolete plant and disposal type is shown in the chart at figure 1.

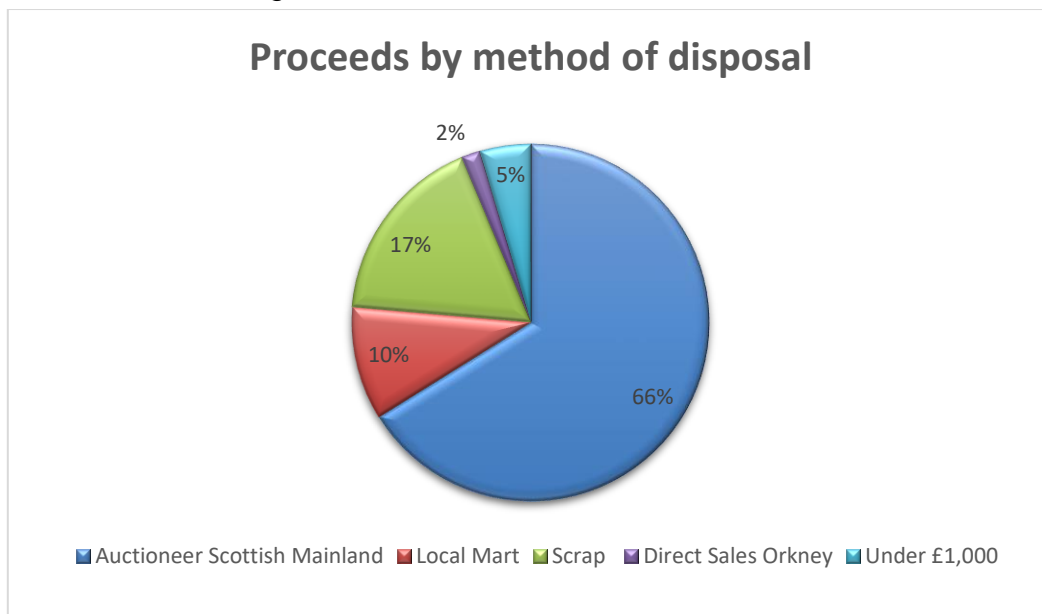


Figure 1

4.2 The Council's corporate asset management plan 2019 to 2023 detailed the following fleet of vehicles and plant owned by the Council that support the delivery of service.

<u>Council Owned Vehicles and Plant</u>	
<u>Quantity</u>	<u>Type</u>
50	vehicles over 3,500kg
40	cars and vans up to 3,500kg
43	pickups and minibuses up to 3,500kg.

16	disabled access buses
17	zero emission vehicles (Electric)
73	registered and licenced items of plant including tractors and paving machines
144	non-registered items of plant including excavators, forklifts and compressors
Various	fixed plant items including waste balers and a bitumen mixing plant.

Figure 2

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1 Guidelines and procedural documentation covering the disposal of surplus vehicle and plant assets should be developed and published on either the Council's intranet hub or website.</p> <p>Our Audit scope was to review disposal of Vehicles and plant. Guidelines and procedural documentation should be reviewed and updated for all corporate asset types within the Council where necessary.</p>	Medium	Agreed.	Head of Roads, Fleet and Waste Services	31 March 2022
<p>2 The Council should consider a vehicle disposal policy based on the optimum planned asset life for each category of vehicle, which should determine the timeframe for its disposal.</p>	Medium	Agreed	Head of Roads, Fleet and Waste Services and Head of Finance	30 September 2022
<p>3 When considering annual and indicative future year plant and vehicle</p>	Medium	Agreed	Head of Roads, Fleet and Waste Services	30 April 2022

replacement programmes the Asset Management Sub-committee should be provided with data detailing vehicles and plant that are not within the programme but are outwith their optimal life spans.				
4 For any future lotting activity it should be made clear within the advertisement whether singular bids for several lots would be considered or not.	Medium	Agreed	Head of Roads, Fleet and Waste Services	31 March 2022, (link with Rec 1)
5 It should be ensured that there is a separation of roles between Officers who receive and collate bids and Officers who determine which bids are successful.	Medium	Agreed	Head of Roads, Fleet and Waste Services	31 March 2022, (link with Rec 1)
6 It should be determined and documented which Officers have delegated authority to approve the successful bidders.	Medium	Agreed	Head of Roads, Fleet and Waste Services	31 March 2022, (link with Rec 1)
7 The processes in determining successful bidders, including the Officer determining successful bidders and the reason	Medium	Agreed	Head of Roads, Fleet and Waste Services	31 March 2022, (link with Rec 1)

<p>why the bidder was successful should be documented and records retained.</p>				
<p>8 It should be considered whether further authority should be a requirement to the Council accepting any bids that do not generate maximum receipts, should this be allowed in exceptional circumstances.</p>	<p>Medium</p>	<p>Agreed</p>	<p>Head of Roads, Fleet and Waste Services</p>	<p>31 March 2022, (link with Rec 1)</p>

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

Appendix A

The Council Corporate Asset Management plan provides a framework of six main headings of asset types, these being:

- Property – (which includes operational property and the commercial property portfolio)
- Open Spaces & Heritage
- Roads & Infrastructure
- Housing
- Fleet & Plant
- Information & Communication Technology

This appendix is intended to provide guidance to the Council in forming a formal disposal procedure for surplus fleet and plant assets by the Council, however reference may be made to other asset types.

Delegated powers for assets under the heading of Property disposals have been reviewed during a recent audit. We have therefore not made further references to Property disposals within this appendix.

Key stages in the disposal process for fleet and plant disposal are detailed in the table below.

<u>Fleet and Plant Disposal</u>	
<u>Stage</u>	<u>Description</u>
Business case for disposal.	<ul style="list-style-type: none">• Generally, items of fleet and plant are disposed of when the asset has been replaced, in line with the replacement programme.• Assessment of condition should take place, where appropriate, to consider whether the asset being replaced can economically be kept in service. Due to the need to remain within the annual capital replacement budget, fleet and plant will already be of an age that the potential to extend life further may be not often be possible.• If there are instances where fleet and plant assets are not, or only partially utilised, disposal may be considered.• Potential alternative uses within the Council could be considered, however, for obsolete fleet and plant this is anticipated to be unlikely.• Any consideration in using industry norms by asset type for the life of fleet and plant would have to be compatible with annual capital replacement budgets.

Approval for disposal	<ul style="list-style-type: none"> • The decision whether to dispose of an asset should be taken under delegated authority.
Method of disposal selection	<ul style="list-style-type: none"> • For fleet and plant, including scrap, the normal method of disposal is anticipated to be by public auction, which could follow a self-administered process, the local mart or large auctioneer. • Factors to be included within the selection of type of disposal includes: <ul style="list-style-type: none"> ○ whether it is anticipated that there may be local demand of a scale to facilitate an effective public auction ○ best value, i.e. whether an auctioneer that attracts a greater number of interested parties for the asset being disposed of is likely generate additional revenue in excess of transportation costs. ○ General sustainability • Should an alternative method of disposal to public auction be considered, for example part exchange, direct sale, scrapped or gifted this should only take place in accordance with approved processes and the Council's Financial Regulations. • It should be determined whether bidding broken down to individual lots should be mandatory.
Approval of successful bids. (self-administered process.)	<ul style="list-style-type: none"> • Successful bids should be determined under delegated authority. • There should be separation of roles between the receiving and collating of bids and the approval of successful bids. • It should be considered whether the highest value bid is always successful, or if not, whether there is additional requirement to scrutinise bids that are not of the highest value.
Collection of monies, ledger coding, issue of receipt, allowing the asset to be collected	<ul style="list-style-type: none"> • The Contact Person shall arrange for all payments received to be paid into the Cash Office without delay and receipts coded against the appropriate ledger code. A receipt should be issued to allow for the asset to be removed. For payment by cheque the receipt should be issued after the money has cleared.
Registers	<ul style="list-style-type: none"> • Inventory list and insurance schedules should be updated to record the transaction.

Requirements throughout the process.

Record retention	<ul style="list-style-type: none"> • An audit trail of all assets disposed of must be maintained to evidence that the Council have carried out correct processes when disposing of assets. • This audit trail must be kept for independent scrutiny. • The audit trail should include a record of the: <table border="1" data-bbox="376 461 1331 1420"> <tr> <td data-bbox="376 461 576 533">Reference:</td> <td data-bbox="576 461 1331 533">Specific, identifiable reference number</td> </tr> <tr> <td data-bbox="376 533 576 602">Description:</td> <td data-bbox="576 533 1331 602">Brief summary of asset</td> </tr> <tr> <td data-bbox="376 602 576 672">Reason:</td> <td data-bbox="576 602 1331 672">Brief explanation of why asset is no longer required</td> </tr> <tr> <td data-bbox="376 672 576 741">Condition:</td> <td data-bbox="576 672 1331 741">Brief description of state of asset</td> </tr> <tr> <td data-bbox="376 741 576 846">Method of disposal</td> <td data-bbox="576 741 1331 846">Brief description to the selection of the method of disposal used.</td> </tr> <tr> <td data-bbox="376 846 576 992">Disposal approved by</td> <td data-bbox="576 846 1331 992">Officer name</td> </tr> <tr> <td data-bbox="376 992 576 1171">Method of disposal approved by</td> <td data-bbox="576 992 1331 1171">Officer Name</td> </tr> <tr> <td data-bbox="376 1171 576 1317">Successful bidder assessed</td> <td data-bbox="576 1171 1331 1317">Officer Name</td> </tr> <tr> <td data-bbox="376 1317 576 1420">Contact Officer</td> <td data-bbox="576 1317 1331 1420">Officer name</td> </tr> </table> <p>Recording by electronic log, such as spreadsheet could be considered.</p>	Reference:	Specific, identifiable reference number	Description:	Brief summary of asset	Reason:	Brief explanation of why asset is no longer required	Condition:	Brief description of state of asset	Method of disposal	Brief description to the selection of the method of disposal used.	Disposal approved by	Officer name	Method of disposal approved by	Officer Name	Successful bidder assessed	Officer Name	Contact Officer	Officer name
Reference:	Specific, identifiable reference number																		
Description:	Brief summary of asset																		
Reason:	Brief explanation of why asset is no longer required																		
Condition:	Brief description of state of asset																		
Method of disposal	Brief description to the selection of the method of disposal used.																		
Disposal approved by	Officer name																		
Method of disposal approved by	Officer Name																		
Successful bidder assessed	Officer Name																		
Contact Officer	Officer name																		
Legal and Health and Safety Compliance	<p><u>Civil Law</u></p> <ul style="list-style-type: none"> • Where the Council is selling second-hand equipment to consumers the goods must comply with the terms of the Consumer Rights Act, i.e. as described, of satisfactory quality and fit for purpose. These rights cannot be restricted in consumer transactions but in the event of any issues the price paid would need to be considered. If selling to a business these three requirements can be specifically excluded. 																		

Criminal Law

- If selling to consumers then any goods would need to comply with the General Product Safety Regulations however if only selling to businesses these Regulations would not apply. As used goods the Machinery Safety Regulations do not apply.
- In terms of any descriptions applied to the goods these would have to be accurate or, if not, may lead to potential offences under the Consumer Protection from Unfair Trading Regulations, or the Business Protection from Misleading Marketing Regulations.
- Where specialist plant and equipment requires a valid operating certificate before it can be used for its intended purpose, and which may have since expired, the Health and Safety Team and Legal Services should be consulted in the first instance to establish any restrictions on future use.

Disposal of Electrical Equipment

- In disposing of equipment, the Council has to take reasonable precautions to ensure that the equipment is as described and fit for purpose. Disposal in this respect refers to both selling and/or gifting of any items. Where the Council is selling or giving away the goods to consumers, the Council is deemed to be “supplying” the goods under consumer safety legislation and would therefore have to ensure the goods complied with all relevant legislation including: -
 - General Product Safety Regulations
 - Low Voltage Electrical Equipment Safety Regulations
 - Electromagnetic Compatibility Regulations.