

## Annual Internal Audit opinion and report 2016/17

**Committee**            Audit and Standards

**Date of meeting**    1 December 2017

**Date of report**    23 May 2017

### Report by Assistant Chief Executive (Business Support)

#### 1. Object of report

To ask the committee to note the annual Internal Audit opinion and report for 2016/17.

#### 2. Background

##### Internal Audit plan 2016/17

The Internal Audit plan 2016/17 was approved by the Audit and Standards committee at its meeting of 17 June 2016.

The Internal Audit plan provides the direction of travel and a framework for internal audit work in the forthcoming year. The plan is aligned to SPT's corporate governance arrangements whilst having scope to be responsive to change.

The plan is regularly reviewed and the scope of each engagement is informed by:

- (the) assurance framework;
- risk registers;
- external factors (e.g. government initiatives, intelligence, networking, etc.);
- the Strategy Group and the Audit and Standards Committee.

##### Internal Audit coverage

Audit and Assurance provide Internal Audit services to Strathclyde Partnership for Transport (the Partnership) and the Strathclyde Concessionary Travel Scheme Joint Committee (the Joint Committee). Engagements can encompass both organisations as they share common core systems.

### Internal Audit opinion

The Internal Audit opinion is a specific requirement in the Statement on the System of Internal Financial Control contained in both the Partnership's and Joint Committee's Financial Statements, which are prepared in accordance with *Code of Practice on Local Authority Accounting in the United Kingdom for 2016/17*.

## **3. Outline of findings**

### Internal Audit plan 2016/17

The main objective of the Internal Audit plan for 2016/17 was to provide an assurance service that assesses the effectiveness and efficiency of the Partnership's systems for internal control. The plan included provision for consulting activities and fraud prevention.

### Assurance engagements

Assurance engagements are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes and to ensure operations are being conducted in accordance with external regulations, legislation, internal policies and procedures (e.g. digital, financial, performance, compliance, security engagements, etc.). Assurance levels are based upon engagement findings and conclusions at an individual engagement level which, when collated on an annual basis, support the Statement on the System of Internal Financial Control contained within the financial statements of the Partnership and the Joint committee.

A summary of assurance engagements completed in 2016/17 is shown at Appendix 1.

To assist members a copy of the Levels of Assurance assigned to each engagement is provided to the committee at Appendix 2.

In addition, 17 follow-up reviews of assurance engagements have been reported in 2016/17. Follow-up reviews found that 76 of the 87 (87%) recommendations from these engagements have been implemented.

### Consulting activities

Consulting activities are advisory in nature and relate to specific requests from senior management. They are intended to add value and improve governance, risk management and control processes without the internal auditor assuming management responsibility.

During 2016/17, Audit and Assurance completed consulting activities in relation to the Assurance framework, Audit Scotland reports, the (local) code of corporate governance, money laundering, public sector pension scheme reporting, records management arrangements and Subway suspension ticketing.

### Fraud prevention and investigation

Managing the risk of fraud and corruption is the responsibility of SPT management. Audit and Assurance assist management in the effective discharge of this responsibility. The Counter Fraud Strategy (including the fraud response plan and whistleblowing policy) outlines the Partnership's commitment to prevent, detect, investigate and report fraud. The Internal Audit plan for 2016/17 included provision for fraud prevention and investigation to support this strategy.

The Partnership participated in the National Fraud Initiative (NFI) exercise during 2016/17. Data matches were analysed and investigated with no error or fraud found.

In addition, the Audit and Assurance team assisted management in the provision of fraud awareness initiatives which have been presented to staff during 2016/17.

#### Internal Audit resources

The Audit and Assurance team was fully resourced throughout 2016/17.

#### Internal Audit plan days

During 2016/17, the planned allocation of 500 internal audit days was achieved.

#### Quality assurance

In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), an external assessment of the Audit and Assurance service was undertaken during 2016/17. A validated self-assessment using good practice guidance, namely, the CIPFA local government application note for the UK Public Sector Internal Audit Standards, was provided to the external assessor.

The external assessment found that the Audit and Assurance service *'conforms with the International Standards for the Professional Practice of Internal Auditing'*.

#### Independence

The Audit and Assurance function has been independent in its planning, operation and activity throughout 2016/17, as set out in the Internal Audit Charter.

#### Public Sector Internal Audit Standards (PSIAS)

The annual Internal Audit opinion and report for 2016/17 has been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS) and the Internal Audit Charter.

#### Internal Audit opinion

The evaluation of the internal control environment is informed by the following sources:

- (the) assurance framework;
- assurance engagements completed in the year to 31 March 2017;
- implementation of management actions as part of the engagement follow-up process;
- reports issued by the Partnership's and Joint Committee's external auditors during 2016/17.

It is the opinion of the Audit and Assurance manager, based on the above and information contained in Appendix 1, that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's framework of governance, risk management and control in the year to 31 March 2017.

#### 4. Conclusions

The Internal Audit plan 2016/17 has been completed.

It is the opinion of the Audit and Assurance manager that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's framework of governance, risk management and control in the year to 31 March 2017.

#### 5. Committee action

The committee is asked to note the contents of this report.

#### 6. Consequences

Policy consequences	<i>None</i>
Legal consequences	<i>None</i>
Financial consequences	<i>None</i>
Personnel consequences	<i>None</i>
Social Inclusion consequences	<i>None</i>
Risk consequences	<i>As detailed in the report.</i>

**Name** Valerie Davidson

**Name** Gordon MacLennan

**Title** **Assistant Chief Executive  
(Business Support)**

**Title** **Chief Executive**

For further information, please contact Iain McNicol, Audit and Assurance Manager on 0141 333 3195.

## Internal Audit plan 2016/17 – Assurance engagements

No.	Assurance engagement	Status	Number of Recommendations	Date reported to Audit and Standards committee	Assurance Level
1	Regularity audit of Subway annual stocktake	Complete	3	9 September 2016	Reasonable
2	IT controls review of portable IT equipment	Complete	8	9 September 2016	Reasonable
3	Regularity audit of the CRC energy efficiency scheme	Complete	Nil	9 September 2016	Reasonable
4	Systems review of bus infrastructure: bus stops and shelters	Complete	1	9 September 2016	Reasonable
5	Regularity audit of East Kilbride travel centre	Complete	7	11 November 2016	Reasonable with exceptions
6	Regularity audit of corporate credit and procurement cards and petty cash	Complete	5	11 November 2016	Reasonable with exceptions
7	Core financial systems review of Value Added Tax administration	Complete	2	11 November 2016	Reasonable
8	Regularity audit of corporate banking charges	Complete	2	11 November 2016	Reasonable
9	Review of IT change and file controls	Complete	9	17 March 2017	Reasonable with exceptions
10	Regularity audit of the Public Bodies Climate Change Duties report	Complete	1	17 March 2017	Sound assurance in most areas
11	Contract audit of Subway tunnel lining	Complete	3	17 March 2017	Reasonable
12	Systems review of grant funded projects	Complete	9	17 March 2017	Reasonable
13	National Fraud Initiative (NFI) 2016/17	Complete	1	17 March 2017	Sound assurance in most areas
14	Regularity audit of Travel Centre administration	Complete	9	1 December 2017	Reasonable with exceptions
15	Systems review of Health & Safety reporting	Complete	7	1 December 2017	Reasonable
16	Regularity audit of Subway station office administration	Complete	9	1 December 2017	Reasonable

**Levels of Assurance**  
(Statement of Opinion on the Adequacy and Effectiveness of Internal Controls)

Engagement Findings/Conclusions	Statement of Opinion on the Adequacy and Effectiveness of the Internal Controls	Assurance Level
Objectives of internal control have been met in <b>all</b> areas within the scope of the audit engagement.  Key controls exist and are applied consistently and effectively in <b>all</b> areas.	Clean opinion	<b>'Sound Assurance'</b> [Full Assurance]
Objectives of internal control have been met in <b>almost all</b> areas within the scope of the audit engagement. Key controls exist and are applied consistently and effectively in <b>most</b> areas.  Areas for Improvement are <b>Low</b> risk.	Clean opinion	<b>'Sound Assurance in most areas'</b> [Substantial Assurance]
Objectives of internal control have been met in the <b>majority</b> of areas within the scope of the audit engagement. <b>Some</b> non-compliance/weaknesses identified. Key controls exist and are applied consistently and effectively in the <b>majority</b> of areas.  Areas for Improvement are <b>Medium</b> risk.	Clean opinion	<b>'Reasonable Assurance'</b> [Moderate Assurance]
Objectives of internal control have not been fully achieved within the scope of the audit engagement. Non-compliance/weaknesses identified. Key controls exist but are <b>not</b> applied consistently and effectively.  Areas for Improvement are <b>Medium</b> and/or <b>High</b> risk.	Qualified opinion	<b>'Reasonable Assurance Except for.....'</b> [Limited Assurance]
Objectives of internal control have not been achieved within the scope of the audit engagement. <b>Significant</b> non-compliance/weaknesses identified.  Areas for Improvement are <b>High</b> risk.	Adverse opinion	<b>'Reasonable Assurance cannot be placed'</b> [No Assurance]