

External quality assessment of the Internal Audit function – summary report

Date of meeting 13 June 2025

Date of report 12 May 2025

Report by Chief Executive

1. Object of report

To advise the committee of the External Quality Assessment (EQA) of the Internal Audit function from Azets, the appointed external assessor.

2. Background to report

Members may recall the last meeting of 21 February 2025, where the committee noted the appointment of Azets to undertake an external assessment and report the findings to this meeting.

3. Outline of proposals

The Azets External Quality Assessment summary report can be found at Appendix 1.

4. Committee action

The committee is asked to note the main findings and conclusions of the EQA report.

5. Consequences

Policy consequences	<i>In accordance with the Internal Audit Charter.</i>
Legal consequences	<i>The Local Authority Accounts (Scotland) Regulations 2014 require SPT to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.</i>
Financial consequences	<i>Cost was met from existing budget provision.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>None.</i>

Climate Change, Adaptation & Carbon consequences *None.*

Name Lesley Aird
Title **Director of Finance & Corporate Support**

Name Valerie Davidson
Title **Chief Executive**

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



Strathclyde Partnership for Transport

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April 2025



Strathclyde Partnership for Transport

External Quality Assessment of Internal Audit Function

Introduction	2
Conclusion	4
Main findings	5
Appendix 1 - Review Team	10

<i>Review Sponsor</i>	<i>Key Contacts</i>	<i>Azets review team</i>
<i>Valerie Davidson, Chief Executive</i>	<i>Iain McNicol, Audit and Assurance Manager</i> <i>Donald Reid, Chair of Audit and Standards Committee</i>	<i>Gary Devlin, Partner</i> <i>Rachael Weir, Director</i>

Introduction

In March 2025 we carried out an external quality assessment of the Internal Audit function within Strathclyde Partnership for Transport (SPT) to assess compliance with the Chartered Institute of Internal Auditors' (CIIA) International Professional Practices Framework (IPPF)¹ and the Public Sector Internal Audit Standards (PSIAS) for the period to 31 March 2025.

Background

PSIAS require the Chief Audit Executive (in the case of SPT, the Audit and Assurance Manager) to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The improvement programme must include periodic internal assessments and an external review at least every five years.

Our review meets the requirement for an external quality assessment of SPT's Internal Audit service. Our approach has been designed to help evidence effective internal auditing with a focus on outcomes that will help SPT meet its public service delivery commitments.

Approach

In order to assess compliance with the IPPF, PSIAS and the CIPFA Local Government Application Note (LGAN), we used the External Quality Assessment checklist developed by the Institute of Internal Auditors (IIA). The checklist takes the form of a series of key conformance criteria against which internal audit services are assessed as either generally conforming, partially conforming or non-conforming.

We assessed the Internal Audit service's conformance by obtaining and reviewing appropriate evidence to form an opinion on the extent to which SPT has demonstrated compliance with each component standard. We have provided an overall conclusion for each area of the assessment, including whether the Internal Audit service generally conforms, partially conforms or does not conform with the standards. We have also identified actions to address areas where improvements can be made.

Our assessments have been informed by discussions with the Chief Executive, Chair of the Audit and Standards Committee and the Audit and Assurance Manager.

Scope

We have reviewed the Internal Audit function's performance in the following areas:

- **Code of Ethics** – Does the Internal Audit service's methodology and practice support the four ethical tenets: integrity, objectivity, confidentiality and competence?
- **Purpose and positioning (Attribute Standards)** – Does the Internal Audit service have the appropriate status, clarity of role and independence to fulfil its professional remit? Is there an appropriate quality assurance and improvement programme in place?

¹ This framework has now been superseded by the IIA's Global Internal Audit Standards which came into effect for public bodies on 01 April 2025.

- **Managing the Internal Audit Activity (Performance Standards)** – Does the internal audit service have the appropriate structure and resources to deliver the expected service? Does the internal audit service have the processes to deliver an effective and efficient internal audit service? Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation?

Our assessment of the extent of compliance with each of these areas is set out in the Conclusion section to this report. We have shared the full checklist with the Audit and Assurance Manager separately. This includes detail of our assessment on standard-by-standard basis.

Acknowledgements

We would like to thank all staff consulted during this engagement for their assistance and co-operation.

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This report is intended for use by SPT only and should not be relied upon by anyone else for any purpose whatsoever. Azets is acting for SPT only and will not be responsible to any other person for providing protections afforded to clients and will not give any advice to any recipient of this report. No representation or warranty, express or implied, is given by us as to the accuracy or completeness of the information and opinions contained herein.

Additionally, no account has been taken of the needs of third party organisations in producing and agreeing this report and as such, it may be unsuitable for their purposes. Third parties should therefore verify the information contained in the report with our client where necessary.

To the fullest extent permitted by law, neither Azets nor SPT nor its directors shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of any third parties relying on any information or opinions contained herein or in any other communication in connection with this report.

Conclusion

Based on our assessment of the effectiveness of the Internal Audit service, we have concluded that overall, the SPT Internal Audit function generally conforms with both the IPPF and PSIAS.

Area	Generally conforms	Partially conforms	Does not conform	N/A
Definition of auditing	1	-	-	-
Code of Ethics	4	-	-	-
Purpose and positioning (Attribute Standards)	16	-	-	-
Managing the Internal Audit Activity (Performance Standards)	26	2	-	3
TOTAL	47	2	-	3

We have identified a number of minor areas for improvement, most notably:

- More explicitly linking corporate, functional and/or business risks within Internal Audit plans and underlying audit universe;
- Undertaking a formal assessment of the continued independence and objectivity of the Chief Audit Executive on at least an annual basis; and
- Ensuring that sufficient details of audit sample testing are recorded and retained on file so as to allow tests to be re-performed if necessary.

This point and a number of less significant areas for consideration are further discussed within the *Main Findings* section of our report.

Main findings

We have structured our detailed findings to reflect the evaluation areas as outlined in the section above.

Code of Ethics

This section of the checklist requires an assessment of the SPT Internal Audit function to demonstrate compliance with the key ethical standards set out in the IIA Global Code of Ethics as set out in the Code of Professional Conduct:



Our review found that SPT generally conformed with all five of the key conformance criteria in this area.

The Chief Audit executive (CAE) was able to demonstrate Internal Audit’s independence within the organisation through the direct reporting line to both the Audit and Standards Committee (ASC) and the Chief Executive as well as its unlimited access to records and personnel. We also found there to be an effective process to consider conflicts of interest that may impact on auditor independence.

To ensure the competence and integrity of the Internal Audit function, a documented Internal Audit Manual is in place that sets out the day-to-day ways of working. The CAE is also a fully qualified accountant with significant experience of working in the Scottish public sector. The Internal Audit Manual includes clear reference of the need to ensure confidentiality at each stage of the internal audit process.

Suggested areas for improvement:

N/A

Purpose and Positioning (Attribute Standards)

This section of the IIA Checklist focuses on whether the SPT Internal Audit function adds value to the organisation and supports continuous improvement of operations. In addition, we assessed the extent to which the Internal Audit function has the appropriate status, clarity of role and independence to fulfil its professional remit.

Our review found that SPT generally conformed with 16 of 16 (100%) key conformance criteria in this area.

The definition of internal audit is included within the IA Charter. The definition used is as aligned with the Public Sector Internal Audit Standards (PSIAS). The Charter also defines the Internal Audit Strategy to “support SPT service delivery by providing risk-based and objective assurance, advice and insight”.

The authority of Internal Audit is also defined within the standards including authority to have access to e.g. premises, assets, correspondence, documents, records and systems, personnel.

The “Responsibility and Scope of Activity” is defined within the Charter as encompassing:

“the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management process, system of internal control, and the quality of performance in carrying out assigned responsibilities in achieving the Partnership's strategic objectives”.

The Internal Audit Charter also outlines the role, authority and responsibility of Internal Audit within the organisation and is updated in response to compliance changes (e.g. in external standards) or internal changes (e.g. structural or staff changes). The Charter also includes reference to the Code of Ethics and Seven Principles of Public Life. We confirmed that the Charter was up to date, having been refreshed for financial year 2025/26 and presented to the Audit and Standards Committee (ASC) in February 2025.

The CAE is responsible for developing and proposing to the ASC a risk-based annual Internal Audit Plan derived from the risk registers maintained by SPT at a strategic and operational. The assessment of risk is re-evaluated at least quarterly and amendments to the sequence of the scheduled audits is made accordingly to reflect the current organisational position.

Suggested areas for improvement

The following areas for improvement have been identified to address identified areas of non- or partial-conformance, and to support continuous improvement in areas of general conformance:

Standard	Assessment of Conformance	Recommendation
1000 Purpose, Authority and Responsibility	Generally conforms	<p>There is no reference within the Charter to arrangements for avoiding conflicts of interest by Internal Audit in the event that non-audit activities are performed.</p> <p>Whilst we accept that the likelihood of the Audit and Assurance team performing non-audit activities is low, we recommend that the Charter is updated for completeness to clearly define arrangements for managing conflicts of interest in any such scenario.</p>

1100 Organisational independence	Generally conforms	The CAE has worked with the organisation for a number of years. In recognising the length of tenure, we would expect an assessment of continued independence and objectivity to be undertaken on at least an annual basis, with the outcomes formally reported to the Audit and Standards Committee.
1100 Organisational independence	Generally conforms	We recommend that the Internal Audit Charter is updated to include reference to members' responsibility to " <i>approve decisions relating to the appointment and removal of the CAE</i> ".
1100 Organisational independence	Generally conforms	<p>There is no formal route through which feedback is sought from the ASC to inform a performance appraisal of the CAE. Any concerns or comments would be raised as and when necessary directly to the CAE and/or Chief Executive.</p> <p>We recommend that as part of scheduled performance appraisal conversations for the CAE, feedback on performance is sought directly from the Chair of the ASC.</p>
1130 Impairment to independence or objectivity	Generally conforms	<p>The SPT Code of Conduct for Employees sets out the organisational expectation on all employees in respect of Acceptance of Hospitality, Gifts or Favours. There is a central record maintained of gifts and hospitality offered and received maintained by the Audit and Assurance Manager and published externally on the SPT website.</p> <p>In order to ensure there is clear and demonstrable linkage to this requirement insofar as it relates to the IA team, we recommend that the IA Manual should also make clear arrangements for declaring any gifts or hospitality. Cross-referencing to the Code of Conduct for Employees within the IA Manual would suffice.</p>
1312 External Assessments	Generally conforms	<p>The previous EQA was undertaken in March 2017, meaning that six years have elapsed since that review.</p> <p>We note and accept that this delay was pending the release of CIPFA guidance in respect of the new IIA Global Internal Audit Standards (GIAS) as opposed to any failure to schedule an EQA at the appropriate frequency. As such, we have not raised any further recommendation in this area.</p>

Managing the Internal Audit Activity (Performance Standards)

This section of the checklist involves an assessment of arrangements for planning, management, execution and communication of internal audit activity.

Our review found that SPT generally conformed with 26 of 31 (84%) key conformance criteria in this area, and partially conformed with three of 31 criteria (10%). Three further criteria (10%) were assessed as not applicable.

The CAE has developed a manual that provides suitably detailed procedures for Internal Audit staff to follow when planning, conducting and finalising an audit. Our review found that engagement planning, audit work conducted and final reports were of a suitable standard. Detailed Audit Engagement Plans are developed to set out the scope, objectives, resources, timing, associated corporate risks and reporting lines for each review.

Internal Audit issues the Audit Engagement Plan to relevant staff at least two weeks prior to audit work commencing, allowing sufficient time to receive feedback and amend the scope of work if required.

Each audit has a supporting Engagement Work Paper that sets out the expected and actual controls, alongside associated risks. The approach to assessing actual controls is a combination of reviewing background information, interviews with key staff, and review of systems data. All audit information is stored in individual audit assignment files within SPT network drives and these are only accessible by Internal Audit staff.

The final reports are clear, concise and constructive. The report format used clearly sets out the audit scope, findings and any arising recommendations. All reports are issued to the lead contacts, Executive Officer responsible for the area under audit, and the Chief Executive Officer. Once finalised, each report is presented to the Strategy Group by the CAE.

The CAE also presents an in-year progress report to the ASC to ensure appropriate, regular oversight of progress in delivering the agreed internal audits work programme-.

Suggested areas for improvement

The following areas for improvement have been identified to address identified areas of non- or partial-conformance, and to support continuous improvement in areas of general conformance:

Standard	Assessment of Conformance	Recommendation
2010 Planning	Partially conforms	<p>We noted that whilst assessment of risk informs development of the Internal Audit Plan, the plan does not explicitly link planned work to either strategic or operational risks. As such it is not immediately obvious the extent to which the plan reflects the highest risks within the organisation nor the extent to which the work of Internal Audit provides assurance on the effective management of risk.</p> <p>We recommend that the Internal Audit Plan should be updated to more directly link review areas to the organisation's risk register. This should also include reference to the organisation's risk appetite both at corporate level and within the areas planned for review.</p>

2330 Documenting Information	Partially conforms	<p>During our review of the Payroll engagement file, we noted that sampling information had been deleted from the engagement post-completion of the audit and subsequent follow up process. As such, it would not be possible to re-perform testing and confirm the conclusions reached as documented within the audit report. We understand from discussions with management that the decision to delete the file was due to the sensitive/personal nature of the data included</p> <p>We recommend that the need to ensure sufficient details of sampling are recorded and retained on file so as to allow tests to be re-performed if necessary. The level of documentation should be such that only unique identifying information for each of the sample items tested (in this case payroll number) is retained on file.</p>

Appendix 1 - Review Team

Gary Devlin, CPFA, ACA

Partner, Head of Risk and Technology Assurance

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Gary has over 25 years' experience in providing internal audit, external audit and risk management services to the Scottish public sector and leads our Risk and Technology Assurance service line nationally across the UK.

Gary has extensive internal audit leadership experience for a large number of public sector bodies in Scotland, including the Scottish Fire and Rescue Service, David MacBrayne Ltd (another mass transportation client), Forestry and Land Scotland and a number of other organisations.

He also has experience overseeing a range of external audit appointments, including previously with SPT. Additionally, he currently acts as the appointed external auditor for Renfrewshire Council and the Scottish Ambulance Service.

Gary takes an active role on a range of professional boards as a past chair of CIPFA Scotland), Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC), Vice-Chair of CIPFA-LASAAC and currently Chair of Hanover (Scotland) Housing Association.

Gary regularly speaks on issues relevant to public sector governance, including financial and performance management issues at a range of events and seminars.

Rachael Weir, CA

Director, Risk Assurance

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Rachael is a Director in our Risk Assurance team and has almost ten years' experience in delivering internal audit assignments across a diverse client base across private, public and charity sectors.

She joined our team as a graduate trainee and upon completing her CA qualification in 2018 decided to specialise in internal audit. Since then, she has been responsible for the delivery of internal audit services to some of our largest, most complex and high-profile clients including NHS Greater Glasgow and Clyde, NHS Ayrshire and Arran, NHS 24, the Scottish Police Authority, David MacBrayne Limited, and the Scottish Event Campus.

Rachael was previously named Azets' Employee of the Year, recognising her consistently excellent client service. Clients particularly value her interpersonal skills, pragmatism, flexible approach, and attention to detail.

She has overseen reviews in complex areas for her clients including workforce planning, change management, service redesign, and strategic and operational planning. She has also previously led on high-profile special investigations in response to client whistleblowing allegations and fraud.

Rachael has also played a significant role in developing the team's approach to assurance mapping and has previously supported clients in EQAs, the set-up of new processes, improving risk management arrangements, and in strategy development.

