



Annual Internal Audit opinion and report 2015/16

Committee Audit and Standards

Date of meeting 17 June 2016

Date of report 6 June 2016

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 2015/16.

2. Background

Internal Audit plan 2015/16

The Internal Audit plan 2015/16 was approved by the Audit and Standards committee at its meeting of 27 March 2015.

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 2015/16*.

3. Outline of findings

Internal Audit plan 2015/16

The main objective of the Internal Audit plan for 2015/16 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. financial, performance, compliance, system 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 2015/16 with the assurance level assigned to each engagement is shown at Appendix 1.

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

In addition, sixteen follow-up reviews of assurance engagements have been reported in 2015/16. Follow-up reviews found that 82 of the 90 (91%) recommendations from these engagements have been implemented. Progress remains on-going to implement the outstanding recommendations from these engagements.

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 2015/16, Audit and Assurance completed consulting activities in relation to the Assurance framework, Audit Scotland reports, European Structural Funds (ESF) grant funding, the (local) code of corporate governance, long service awards, and records management.

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 2015/16 included provision for fraud prevention and investigation to support this strategy.

During 2015/16, Audit and Assurance assisted management in accordance with the Counter Fraud Strategy.

In addition, the Audit and Assurance team assisted management in the provision of fraud awareness initiatives which have been presented to staff during 2015/16.

Internal Audit resources

The Audit and Assurance team was fully resourced throughout 2015/16.

Internal Audit plan days

During 2015/16, 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), a self-assessment exercise of the Audit and Assurance service has been completed. This exercise used good practice guidance, namely, the CIPFA local government application note for the UK Public Sector Internal Audit Standards, as a benchmark.

The self-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 2015/16, as set out in the Internal Audit Charter.

Public Sector Internal Audit Standards (PSIAS)

The annual Internal Audit opinion and report for 2015/16 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 2016;
- 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 2015/16.

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 2016.

4. Conclusions

The Internal Audit plan 2015/16 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 2016.

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 2015/16 – Assurance engagements

No.	Assurance engagement	Status	Number of Recommendations	Date reported to Audit and Standards committee	Assurance Level
1	Regularity audit of the CRC energy efficiency scheme	Complete	2	11 September 2015	Reasonable
2	Systems review of access and security arrangements	Complete	9	11 September 2015	Reasonable
3	Contract audit of escalator maintenance	Complete	8	13 November 2015	Reasonable with exceptions
4	Regularity audit of the arrangements for the implementation of the Procurement Reform (Scotland) Act 2014	Complete	6	13 November 2015	Reasonable
5	Regularity audit of the Strathclyde Concessionary Travel Scheme (SCTS) implementation	Complete	7	13 November 2015	Reasonable
6	Regularity audit of the administration of ZoneCard tickets	Complete	4	13 November 2015	Reasonable
7	Core Financial System review of treasury management	Complete	3	13 November 2015	Sound assurance in most areas
8	Systems review of recruitment and vetting arrangements	Complete	6	18 March 2016	Reasonable
9	IT controls: IT network, internet and e-commerce	Complete	4	18 March 2016	Reasonable
10	Contract audit of personal protective equipment (PPE) and workwear	Complete	8	18 March 2016	Reasonable
11	Location audits: Subway stations	Complete	7	17 June 2016	Reasonable
12	Location audits: Travel Centres	Complete	5	17 June 2016	Reasonable
13	IT controls: System administration and IT network controls	Complete	4	17 June 2016	Reasonable
14	Regularity audit of the administration of smartcards	Complete	7	17 June 2016	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 all areas within the scope of the audit engagement. Key controls exist and are applied consistently and effectively in all areas.	Clean opinion	'Sound Assurance' [Full Assurance]
Objectives of internal control have been met in almost all areas within the scope of the audit engagement. Key controls exist and are applied consistently and effectively in most areas. Areas for Improvement are Low risk.	Clean opinion	'Sound Assurance in most areas' [Substantial Assurance]
Objectives of internal control have been met in the majority of areas within the scope of the audit engagement. Some non-compliance/weaknesses identified. Key controls exist and are applied consistently and effectively in the majority of areas. Areas for Improvement are Medium risk.	Clean opinion	'Reasonable Assurance' [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 not applied consistently and effectively. Areas for Improvement are Medium and/or High risk.	Qualified opinion	'Reasonable Assurance Except for.....' [Limited Assurance]
Objectives of internal control have not been achieved within the scope of the audit engagement. Significant non-compliance/weaknesses identified. Areas for Improvement are High risk.	Adverse opinion	'Reasonable Assurance cannot be placed' [No Assurance]