Internal Audit – Audit Work 2016/17

February 2017

1.   PURPOSE OF THIS REPORT

This report sets out the internal audit work undertaken by Internal Audit for the Financial Year 2016/17.

2.   SUMMARY

2.1   The accompanying Internal Audit report was conducted for SEStran under the auspices of the 2016/17 internal audit plan approved by City of Edinburgh Council Governance Risk and Best Value Committee on 3 March 2016. Reporting is however to the SEStran Performance and Audit Committee (PAC).

2.2   Early completion of the planned internal audit work this year has allowed the opportunity to submit Internal Audit's report on the internal audit work undertaken in 2016/17 to this Committee meeting for scrutiny. The Annual Internal Audit and Governance Report will include reference to this internal audit work but will only be submitted to PAC and the SEStran Board after the year end, subsequent to the conclusion of the corporate governance self-assurance process.

2.3   The work undertaken by Internal Audit focussed on the controls and process in place within the Partnership surrounding:
- Horizon Scanning in place to identify and consider potential threats, emerging issues and opportunities; and
- The Sustainability of the Real Time Passenger Information project.

Internal Audit also considered whether recommended actions from previous reviews had been undertaken.

2.4   Internal Audit did not make any new recommendations for improvement within their report. The report also noted that the remaining open actions identified in previous years had been closed. Furthermore, Internal Audit identified a number of areas of good practice. See Appendix 1 for a copy of Internal Audit's report.

3   PROMOTION OF INTERNAL CONTROL

3.1   Management are responsible for development and maintenance of sound risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit act as an independent, objective assurance function designed to review and report on the operational effectiveness of the organisation. The work undertaken by Internal Audit is based upon a risk analysis of the Partnership's activities to ensure that Internal Audit's limited resources are used in the most effective way.

4   RECOMMENDATION

4.1   The Board is requested to:

- Note the contents of this report.
- Identify any areas which they consider would benefit from being reviewed in 2017/18

Hugh Thomson
Principal Audit Manager

Appendices	Appendix 1 – 2016/17 Internal Audit Report SEStran
Contact/Tel	Hugh Thomson, Principal Audit Manager (0131) 469 3147
Background Papers	None

The City of Edinburgh Council
Internal Audit

Annual Audit

SESTRAN

Final Report

February 2017

JB1602

·EDINBVRGH·
THE CITY OF EDINBURGH COUNCIL

Contents

Executive summary

Total number of findings

Critical		0
High		0
Medium		0
Low		0
Advisory		0
Total		**0**

Summary of findings

The key strategic issues which are likely to impact on the future state of SEStran are:

- The Edinburgh and South East Scotland City Region Deal;

- Review of the National Transport Strategy; and

- Scottish Planning System White Paper.

There is significant momentum behind the City Deal so this is likely to be the key driver for change. Scrutiny of previous City Deal Applications and the Planning Consultation document gives an indication that an integrated Planning and Transport Function will be required going forward.

The following risks have been identified by the Partnership Director:

- SEStran and SESplan do not have identical Local Authority makeup. It is considered unlikely that there will be unanimous support for a move to a model 3 Transport Authority;

- Local Authority Chief Executives, Council Leaders, Senior Officials and SEStran Board Members may not agree on strategic direction and resourcing of required changes; and

- Regional Transport Authorities may be not be part of the revised National Transport Strategy.

The following areas of good practice were identified:

- Management have in place a robust mechanism to ensure key strategic issues are identified and measures are put in place as far as practical to get ready for future state and mitigate any key risks. These include:

  o Active engagement with Scottish Government, Transport Scotland, Partner Members and Chief Officers, and associated transport organisations;

  o Commissioning independent research to inform decision making;

  o Equalities measures being put in place to increase Board diversity;

  o Submission of proposals for future EU funding in partnership with Universities in developing areas relevant to planning and transport;

  o Realignment of staffing roles to maximize use of relevant skillsets; and

  o Future proofing staff by way of development opportunities.

- Real Time Passenger Information (RTPI):
  - Proactive management of the RTPI project; and
  - Focus on the ongoing sustainability and future direction of RTPI.

- Successful implementation of outstanding audit actions from previous years.

1. Background and Scope

The South East of Scotland Transport Partnership (SEStran) is one of seven Regional Transport Partnerships in Scotland. The Partnership area includes eight Local Authorities, and is home to 28% of Scotland's population.

There is a huge diversity of transportation issues within the SEStran Partnership area, from urban congestion to rural public transport and from ferry ports to airports.

SEStran aims to address these issues and work towards a more sustainable and efficient transport network. SEStran's Regional Transport Strategy (RTS) is the cornerstone of their work. It lays out their vision for the strategic development of transport in south east Scotland up to 2028 and includes a particular focus on links to and from Edinburgh, as the economic hub of the region.

Current strategic issues facing the Partnership include:
- A consultation paper on the future of the Scottish Planning system, issued by the Chief Planner in January 2017 includes proposals that land use and transport planning should be integrated.

- Transport Scotland has begun a review of the National Transport Strategy which will inform the next Strategic Transport Projects Review and will consider transport governance, including the role of Regional Transport Partnerships.

- Six of the SEStran Partner Local Authorities that make up the Edinburgh and South East Scotland City region are working collectively on a bid to the UK and Scottish Governments for a City Region Deal. It is considered that closer integration of strategic development activities would improve the success of this bid.

Scope

The scope of this review was to review the processes & controls in place over key strategic issues.

The sub-processes and related control objectives included in the review are:

Horizon Scanning:
- There is a strategy and processes in place to identify potential threats, risks, emerging issues and opportunities, including but not restricted to, the proposals to realign SEStran and SESplan (the Strategic Development Planning Authority for Edinburgh and South East Scotland), and / or move to become a model 3 authority.

Sustainability of Major Projects: Real Time Passenger Information (RTPI):
- There is a strategy in place to identify alternative sources of funding to cover the expansion of information services provided;

- There is a strategy in place to engage with all Partner Authorities, and key public and private sector organisations to maximise the access to information services across all sectors and regions; and

- There is a strategy in place to cover funding of ongoing maintenance, repairs, fees and replacement costs for RTPI hardware and software in use.

Follow Up Work:
- All agreed recommendations from the previous audits have been successfully implemented.

For the full terms of reference see appendix 2.

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences*; or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences*; or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • ***Minor*** impact on the organisation's operational performance ; or • ***Minor*** monetary or financial statement impact; or • ***Minor*** breach in laws and regulations with limited consequences; or • ***Minor*** impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2 – Terms of Reference

SEStran

Terms of Reference – Annual Audit, ref JB1602

To: George Eckton, Partnership Director

From: Magnus Aitken, Chief Internal Auditor,   Date: 30th November 2016

Cc: *See Key Contacts List*

This review is being undertaken as part of the 2016/17 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2016.

Background

The South East of Scotland Transport Partnership (SEStran) is one of seven Regional Transport Partnerships in Scotland. The partnership area includes eight local authorities, and is home to 28% of Scotland's population. There is a huge diversity of transportation issues within the SEStran partnership area, from urban congestion to rural public transport and from ferry ports to airports. SEStran aims to address these issues and work towards a more sustainable and efficient transport network. SEStran's Regional Transport Strategy (RTS) is the cornerstone of their work. It lays out their vision for the strategic development of transport in south east Scotland up to 2028 and includes a particular focus on links to and from Edinburgh, as the economic hub of the region.

Scope

The scope of this review will be to review the processes & controls in place over key strategic issues. The sub-processes and related control objectives included in the review are:

Sub-process	Control Objectives
Horizon Scanning	• There is a strategy and processes in place to identify potential threats, risks, emerging issues and opportunities, including but not restricted to, the proposals to realign SEStran and SESplan (the Strategic Development Planning Authority for Edinburgh and South East Scotland), and / or move to become a model 3 authority.
Sustainability of Major Projects: Real Time Passenger Information (RTPI)	• There is a strategy in place to identify alternative sources of funding to cover the expansion of information services provided; • There is a strategy in place to engage with all partner authorities, and key public and private sector organisations to maximise the access to information services across all sectors and regions; and • There is a strategy in place to cover funding of ongoing maintenance, repairs, fees and replacement costs for RTPI hardware and software in use.
Follow Up Work	• All agreed recommendations from the previous audits have been successfully implemented.

Approach

Our audit approach is as follows:
- Obtain an understanding of the processes through discussions with key personnel, and review of systems documentation and walkthrough tests where applicable;
- Identify the key risks;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

Our Responsibilities

The role of Internal Audit is to act as an independent, objective assurance and consulting function, designed to add value and improve the operational effectiveness of the organisation. Internal Audit has unrestricted access to all activities undertaken in the organisation in order to independently review and report on the governance, risk management and control processes established by management.

Internal auditors will ensure they conduct their work with due professional care and in line with the requirements of the Public Sector Internal Audit Standards and other relevant professional standards.

The responsibilities of Internal Audit in respect of individual audit assignments are detailed in Appendix 2.

Your Responsibilities

It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

Management will co-operate with Internal Audit on assignments and provide access to records, systems and staff as required within a reasonable timeframe following the request.

Where an audit report is delivered, management are required to provide formal responses to all recommendations, including specifying responsibility and anticipated dates for the implementation of the solutions within two weeks of the draft report being issued. They are also responsible for the implementation of the solutions and this implementation will be monitored and subject to follow-up review.

Internal audit work is performed solely for SEStran and solely for the purposes outlined above. Reports and documents prepared by Internal Audit should not be provided to anyone else.

The responsibilities of the Auditee in respect of individual audit assignments are detailed in Appendix 2.

Internal Audit Team

Name	Role	Contact Details
Magnus Aitken	Chief Internal Auditor	0131 469 3143
Hugh Thomson	Principal Audit Manager	0131 469 3147
Christine Shaw	Internal Auditor	0131 469 3075

Key Contacts

Name	Title	Role	Contact Details
George Eckton	SEStran Partnership Director	Review Sponsor	0131 524 5152
Angela Chambers	SEStran Office Manager	Key Contact	0131 524 5154
Jim Grieve	SEStran Programme Manager	Key Contact	0131 524 5160
Andrew Ferguson	SEStran Secretary & Legal Advisor	Key Contact	03451 555555 x442241
Iain Shaw	CEC Principal Accountant	Key Contact	0131 469 3117

Timetable

Fieldwork Start	28th November 2016
Fieldwork Completed	23rd December 2016
Draft report to Auditee	6th January 2017
Response from Auditee	20th January 2017
Final Report to Auditee	27th January 2017

Appendix 1:   Information Request

It would be helpful to have the following available prior to our audit or at the latest our first day of field work:

- Not applicable; relevant background papers provided following scoping meeting.

This list is not intended to be exhaustive; we may require additional information during the audit which we will bring to your attention at the earliest opportunity.

Appendix 2: Key Audit Stages, Responsibilities and Timetable

Area	Principles	Further guidance
Planning the audit	Agreeing the audit scope and objectives	• Internal Audit will determine and make arrangements for sufficient resources to achieve audit engagement objectives. This will be based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. • An initial planning meeting will be held between Internal Audit and the Partnership Director. The planning meeting will be held in advance of the audit fieldwork commencing. The purpose of the meeting will be to agree the scope and objectives for the review, requirements during the audit and a reporting and closeout timetable. • The Partnership Director will identify the personnel who have the relevant knowledge and are best placed to answer questions in relation to the audit scope. The Partnership Director will be responsible for notifying these staff of the audit scope and any other requirements agreed with Internal Audit during the planning meeting. • Internal Audit shall be responsible for organising meetings with relevant staff.
Audit fieldwork and planning	Timely communication of issues identified during fieldwork	• The Auditee will be informed of the progress of the audit on a regular basis. • Any issues identified during the fieldwork by Internal Audit will be discussed with the relevant staff to ensure that they are accurate and proposed recommendations are valid and achievable. • Any material issues (Critical) will be raised by Internal Audit with the Partnership Director immediately as they arise.
Reporting	Closeout meeting to discuss and agree the internal audit report	• The closeout meeting will be undertaken with the Partnership Director within two weeks of the audit fieldwork being completed. • Internal Audit will provide the Partnership Director with a copy of the draft report within 2 weeks of completing the fieldwork.
Reporting	Management response to internal audit report	• The Partnership Director will have 2 weeks to provide management comments on the findings and recommendations in the Internal Audit report. • Internal Audit will issue the final report to the Partnership Director within 1 week of receipt of management comments.
Reporting	Reporting of internal audit findings to the Performance & Audit Committee	• Internal Audit shall prepare an internal audit update report annually for the Performance & Audit Committee. The update report will summarise the findings arising from the finalised internal audit report. It will also include progress on implementation of prior year internal audit recommendations.

Area	Principles	Further guidance
Follow up	Monitoring the implementation of internal audit recommendations	• A questionnaire will be issued to be completed by the Auditee to allow opportunity to comment directly to the Chief Internal Auditor on the satisfaction of the audit service provided. This forms part of the Internal Audit Quality Review program. • Internal audit will track the status of all open recommendations. Recommendations that are overdue will be reported to the Performance & Review Committee on an annual basis. Internal Audit will advise management of all open recommendations and invite them to provide evidence that the recommendations have been actioned.