

## **Internal Audit – Annual Report 2016/2017**

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### **1. PURPOSE OF THIS REPORT**

This report highlights the work carried out by Internal Audit for the Financial Year 2016/17.

### **2. SUMMARY**

- 2.1 The External Auditor has recommended that an Annual Report is provided by the Head of Internal Audit for the Partnership. This report addresses this requirement and is presented to SEStran's Partnership Board.
- 2.2 Overall reasonable assurance can be placed upon the internal controls in place within the Partnership and I am pleased to include my Statement of Assurance (Appendix 1).
- 2.3 My statement, along with the work of managers in the Partnership and External Audit, helps inform the Annual Governance Statement (Appendix 2), which includes the Treasurer's Statement on the effectiveness of SEStran's system of internal financial control. Although considered unlikely, it should be noted that any major issues raised by the External Auditor in the audit of the accounts could affect the Draft Annual Governance Statement.

### **3. GOVERNANCE**

- 3.1 Internal Audit, the CEC Governance Section and the Partnership's management have undertaken a review of the corporate governance arrangements within the Partnership against best practice and concluded that the arrangements are fully compliant.

### **4. PROMOTION OF INTERNAL CONTROL**

- 4.1 The Internal Audit Section ensures a systematic appraisal of the Partnership's control environment and framework of internal controls by being active in a number of areas within the Partnership. The Section's work is based upon a risk analysis of the Partnership's activities to ensure that the limited resources of the Section are used in the most effective way.

## **5. TREASURER'S ASSURANCE STATEMENT**

- 5.1 Within the Accounting Code of Practice there is a requirement for the Treasurer to sign an annual statement on the adequacy of the internal controls in place within the financial systems.
- 5.2 As part of his Assurance Statement it is recommended that the Treasurer reports on the arrangements within the Partnership for internal audit provision. It is also recommended that the Head of Internal Audit reports on the financial controls in place.
- 5.3 Internal audit staff carried out a high level review of the adequacy and effectiveness of the Partnership's system of internal financial control for the year to 31<sup>st</sup> March 2017. This work supplemented our annual programme of internal audit activity and provided documentary evidence to support the overall assessment of the Partnership's system of internal control.
- 5.4 The following areas of work provide additional support to this assessment of the Partnership's system of financial control:
- Internal Audit review of the robustness of the Partnership's Strategic analysis and future state planning
  - a Certificate of Assurance signed by the SEStran Partnership Director to the effect that the controls in place are sound (to be presented)

## **6. FOCUS OF INTERNAL AUDIT RESOURCES**

- 6.1 The Annual Audit Plan for the period to 31st March 2017 (Internal Audit planning year) includes:
- assistance to the Partnership in addressing any areas noted in the Treasurer's Statement;
  - Advice and opinion as required.

## **7. MONITORING OF PERFORMANCE**

- 7.1 Action plans are agreed with management on all recommendations made within the reports issued and appropriate follow-up arrangements are put in place.

## **8. RECOMMENDATION**

8.1 The Board is requested to:

- Note the contents of this report.
- Note the Draft Annual Governance Statement contained in Appendix 2.

**Hugh Thomson**  
**Principal Audit Manager**

<b>Appendices</b>	Appendix 1 – Annual Statement by Chief Internal Auditor Appendix 2 – Draft Annual Governance Statement 2016/17
<b>Contact/Tel</b>	Hugh Thomson, Principal Audit Manager (0131) 469 3147
<b>Background Papers</b>	None

# South East of Scotland Transport Partnership Appendix 1

## Annual Statement by Chief Internal Auditor

On behalf of the Chief Internal Auditor of the City of Edinburgh Council and provider of the internal audit service for the South East of Scotland Transport Partnership (SEStran), I am pleased to present my Annual Statement on the adequacy and effectiveness of the internal control system of the Partnership for the year ended 31<sup>st</sup> March 2017.

### **Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Partnership's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Head of Internal Audit to provide an annual overall assessment of the robustness of the internal control system. The agreed Internal Audit Strategy ensures that I have in place a planning mechanism to enable me to deliver a formal opinion on the internal control environment within SEStran. The formal movement away from purely financial controls to a mixture of financial and non-financial risks ensures the audit opinion is available on the major controls the Partnership has in place to meet the risks it faces in delivery of its aims and objectives.

### **Sound internal controls**

The main objectives of the Partnership's internal control systems are to ensure:

- that its aims and objectives can be met
- adherence to management policies and directives
- assets are safeguarded
- the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records
- compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Partnership is continually seeking to improve the effectiveness of its systems of internal control.

### **The work of internal audit**

Internal Audit is an independent appraisal and assurance function established by the Treasurer for the review of the Partnership's control environment, comprising risk management, control and governance. It objectively examines, evaluates and reports on the financial and operational controls within the Partnership and provides an opinion on the effectiveness of the control environment in achieving the Partnership's objectives.

The Internal Audit Section operates in accordance with the Public Sector Internal Audit Standards. The Section undertakes an annual programme of work which is reported to the Partnership. The audit plan is based on a formal risk assessment process and audit needs assessment which are revised on an ongoing basis to reflect evolving risks and changes within the Partnership.

The annual audit plan for SEStran is based upon the agreed strategy and is split between work that is required to:

- be carried out annually on the major financial systems to support the Head of Internal Audit's opinion on financial controls which is used to inform the Treasurer's Statement on control;

- support the Chairperson, the Partnership Director and the Treasurer's Annual Governance Statement;
- ensure the effectiveness of the controls that mitigate the risks that would prevent SEStran achieving its aims and objectives as set out in its Business Plan.

In addition, a rolling programme based upon risk is used to cover all other areas of internal control. This rolling programme together with the annual coverage helps to inform my opinion on the adequacy and effectiveness of the control environment.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters including non-compliance with audit recommendations arising from internal audit work are reported to the Partnership.

### **Basis of opinion**

My evaluation of the control environment is informed by a number of sources:

- the audit work undertaken each year by Internal Audit, incorporating the year to 31<sup>st</sup> March 2017;
- reports issued by the Partnership's external auditors, Scott-Moncrieff, and other review agencies;
- knowledge of the Partnership's governance, risk management and performance monitoring arrangements.

### **Opinion**

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system in the year to 31 March 2017.

**Hugh Thomson, Principal Audit Manager**

**Date June 2017**

# South East of Scotland Transport Partnership Annual Governance Statement 2016/17

Appendix 2

## 1. Scope of responsibility

The South East of Scotland Transport Partnership's aim is to develop a transportation system for South East Scotland as outlined in the Partnership's Regional Transport Strategy 2008-2023.

The Partnership is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for and used economically, efficiently, effectively and ethically. The Partnership also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities Elected Members and Senior Officers are responsible for implementing proper arrangements for the governance of the Partnership's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Partnership has approved and adopted a Local Code of Corporate Governance which is consistent with appropriate corporate governance principles and is supported by detailed evidence of compliance, which is regularly reviewed.

This Statement explains how the Partnership delivers good governance and reviews the effectiveness of these arrangements. It also includes a statement on internal financial control in accordance with proper practice.

The Partnership's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)

## 2. The Partnership's governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Partnership is directed and controlled, and its activities through which it accounts to, engages with and influences the community. It enables the Partnership to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance:

- Focusing on the purpose of the Partnership and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Partnership and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;

- Engaging with local people and other stakeholders to ensure robust public accountability.

A significant part of the governance framework is the system of internal control which is based on an ongoing process designed to identify and manage the risks to the achievement of the Partnership's policies, aims and objectives. These are defined in the Partnership's Business Plan, which is updated annually. This will enable the Partnership to manage its key risks efficiently, effectively, economically and ethically.

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

While the system of internal control is designed to manage risk at a reasonable level it cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness.

### **3. Determining the Partnership's purpose, its vision for the local area and intended outcomes for the Community**

The Partnership aims to develop a transportation system for South East Scotland which will enable business to function effectively and provide everyone living in the Region with improved access to health care, education, public services and employment opportunities. The vision for achieving this is outlined in the Regional Transport Strategy.

The Business Plan defines how to implement the aims of this strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

### **4. Review of effectiveness**

The Partnership has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within the Partnership has been nominated to review the effectiveness of the Local Code and will report annually to the Partnership Board.

The review of the effectiveness of its governance framework including the system of internal financial control is informed by:

- the work of the Internal Auditors and the Head of Internal Audit's Annual Statement on the adequacy and effectiveness of the Partnership's system of internal financial control;
- the Partnership Director's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Partnership managers;
- the External Auditors in their Annual Audit Letter and other reports; and
- other inspection agencies comments and reports.

Through the year Elected Members and Officers have responsibility for the development and maintenance of the governance environment. These review mechanisms include:

- **The Partnership Board** provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Partnership's performance.
- **The Performance and Audit Committee** demonstrates the Partnership's commitment to the principles of good governance. It scrutinises the running of the Partnership and suggests improvements.
- **Internal Audit** provides an independent and objective assurance service to the Partnership by completing a programme of reviews throughout the year, to provide an opinion on the internal control, risk management and governance arrangements of South East of Scotland Transport Partnership.
- **The External Auditor's Annual Audit Report** is considered by the Partnership Board and the Performance and Audit Committee along with the output from other external audits and inspections.
- **The risk management system** requires that risks are regularly reviewed by the Performance and Audit Committee and the Board. This ensures that actions are taken to effectively manage the Partnership's highest risks.
- **The Legal Officer** is responsible to the Partnership for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

## 5. Certification

In compliance with accounting practice, the Treasurer has provided the Partnership Director with a statement on the adequacy and effectiveness of the Partnership's internal financial control system for the year ended 31<sup>st</sup> March 2017. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.

During the year the Head of Internal Audit reviewed the robustness of the current corporate governance arrangements and systems of internal control and his findings are included in the Head of Internal Audit's Annual Report.

From this year's review there is evidence that the Code is operating effectively with overall compliance by the Partnership in all significant areas of its corporate governance arrangements.

Chairperson of  
Partnership Board:

Date

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Partnership Director: GEORGE ECKTON

Date

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Treasurer: HUGH DUNN

Date

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