

The City of Edinburgh Council **Internal Audit**

SEStran - Annual Internal Audit review

Final Report
30 April 2018

MIS1708

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This internal audit review is conducted for the South East Scotland Transport Partnership under the auspices of the 2017/18 internal audit plan approved by the South East Scotland Transport Partnership Board in March 2017. The review is designed to help the South East Scotland Transport Partnership assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there specific recommendations are included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the South East Scotland Transport Partnership. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical rated risk findings will be raised with senior officers and board members as appropriate

1. Background and Scope

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.

SEStran is predominantly grant funded and received £1.4M funding in the financial year 2016/17. Funding is normally received from the Scottish Government; European bodies; and local authority councils. Circa £1m of this funding was spent on projects to support delivery of the RTS, and the balance on operating costs.

Given the significant grant funding contributed to support delivery of SEStran projects, it is essential that an adequate and effective governance framework has been established to support SEStran operations and disbursement of grant funds.

The SEStran Governance Scheme was implemented in August 2017, and includes a range of key documents that form the basis of both Partnership operations and decision making.

Scope

The scope of this review assessed the design adequacy and operating effectiveness of the key governance controls established to support SEStran operations and disbursement of grant funding on delivery of SEStran projects, with the objective of mitigating the following risks:

- Strategy (medium)
- Governance (including Supplier dependency) - medium
- Key person dependency (low)
- Grant Disbursement (low)

For the full terms of reference see Appendix 2.

2. Executive summary

Summary of findings raised

1. Medium - Governance Scheme- contingency and succession planning

2. Low - Future Funding

Opinion

Our review identified some moderate control gaps in the design of the SEStran governance scheme in relation to short term contingency planning in the event of unplanned absence at senior levels within the partnership; SEStran employee succession planning; and the process to be applied in the event of resignation of a committee chair during their term of office.

We also noted that whilst the partnership risk register includes a high rated risk in relation to potential Brexit impacts on funding, no plan has been established detailing the actions in progress to ensure that post Brexit funding can be sourced and secured. It is essential that at least circa 4% of new funding (this reflects the percentage of SEStran total average funding across the last 3 years sourced from the EU) is secured post Brexit to support both the ongoing operation of the partnership, and delivery of the planned strategic transport improvements through to 2028 as detailed in the Regional Transport Strategy.

Consequently, one medium and one low rated findings have been raised.

Our review confirmed that all other aspects of the SEStran governance framework are adequately designed and operating effectively. We noted that there is a robust process in place for recruiting new non-councillor Board members and provision of training; and that third party services are effectively managed and monitored to ensure ongoing compliance with applicable legislation. Additionally, controls in relation to grant disbursement are operating effectively with returns provided to all grant providers demonstrating that funds have been disbursed as per grant offer conditions.

Our detailed findings and recommendations are laid out within Section 3: [Detailed findings](#)

SEStran management met with Internal Audit on 30 April 2018 to outline their proposals to address the findings raised. IA has confirmed that the planned approach is satisfactory. SEStran are aiming to implement the agreed actions in advance of the agreed implementation dates (subject to agreement of the approach with the Council's Committee Services team) so that confirmation of closure can be provided at the SEStran Board meeting scheduled for 22 June 2018.

3. Detailed findings

1. Governance scheme – contingency and succession planning

Medium

The remit and responsibilities of the SEStran Succession Planning Committee are detailed in the ‘List of Committee Powers’ document. However, their remit does not include responsibility for either short term operational contingency or long term succession planning for SEStran employees, or for the replacement of a committee chair in the event that they leave during their term of office.

There is currently no established SEStran contingency plan to ensure that the organisation continues to operate effectively in the event of unplanned long term absence at senior levels (Director and Programme Manager). There is also no established long-term succession plan to ensure that appropriate successors have been identified and developed to move into more senior operational roles in future.

Whilst there is an established process delegating authority to authorise invoices for payment from the Partnership Director to the Head of Programmes and the Business Manager to cover annual leave, there is no established delegated authority for key operational processes such as payments; procurement; payroll; and grant acceptance in the event of unplanned absence at senior levels.

Risk

The partnership is unable to operate in the event of unplanned absence at senior levels.

Internal Audit Recommendation(s)

1. The remit of the SEStran succession planning committee should be revised to include responsibility for establishing operational contingency and succession plans for the partnership. These plans should be presented to the partnership Board for approval prior to implementation;
2. A partnership contingency plan should be prepared, approved by the Board, and implemented. This should include (but should not be limited to) allocation of operational responsibilities and the processes to be applied in the event of unplanned absence at a senior level; and the process to be applied in the event that a committee chair leaves during their term of office; and
3. A SEStran succession plan should be prepared, approved by the Board, and implemented. This should include identification of potential role successors together with an assessment of their level of readiness (based on skills recorded in the SEStran skills matrix); their development needs; and training plans to support their future development. Identification and upskilling potential future successors should also support effective contingency planning.

Agreed Management Action(s)

1. It is proposed to add a further remit to the “List of Committee Powers” document, at Section 3, for the Succession Planning Committee as follows:
“to prepare, for Partnership Board approval, operational contingency and succession plans for the Partnership”.
We would then seek to work with the Succession Planning Committee and to progress this as soon as possible.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

2. A “Partnership Operational Contingency Plan” will be prepared and included as an addendum to the “List of Officer Powers” document within the Governance Scheme. The plan will assign operational and procedural responsibilities to appropriate staff levels, in the event of absence at a senior level.
In addition, the document will include a procedure to be followed in the event of the Partnership Board Chair leaving during a term of Office, which will clearly require engagement with the Vice Chairs and the wider Board, as part of the process.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

3. A succession plan in relation to SEStran staff will be prepared.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

2. Future funding

Low

SEStran has identified Brexit as a high risk on their risk register. However, the risk register does not include planned actions to ensure that post Brexit funding of an equal value to that currently received from the European Union (4% of total average funding for the last 3 years) can be sourced to support ongoing operations, and delivery of the planned strategic transport improvements through to 2028 as detailed the Regional Transport Strategy.

It is acknowledged SEStran cannot realistically plan financial budgets beyond one year due to ongoing constraints in relation to government funding.

Risk

Long term viability of the partnership post Brexit.

Internal Audit Recommendation(s)

The risk register should be updated to include proposed actions in relation to sourcing alternative funding sources post Brexit, with regular progress updates provided to the Board.

Agreed Management Action(s)

The risk register will be updated in respect of actions to source additional funding beyond Brexit.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2 – Terms of Reference

SEStran

Terms of Reference – Annual Audit, ref MIS 1708

To: Jim Grieve, Acting Partnership Director

From: Lesley Newdall, Chief Internal Auditor,

Date: 14 February 2018

Cc: *See Key Contacts List*

This review is being undertaken as part of the 2017/18 City of Edinburgh Council Internal Audit plan approved by the City of Edinburgh Council Governance, Risk, and Best Value Committee in March 2017.

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.

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Scope

The scope of this review will assess the design adequacy and operating effectiveness of the key governance controls established to support SEStran operations and disbursement of grant funding on delivery of SEStran projects, with the objective of mitigating the following key risks:

- Strategy (medium)
- Governance (including Supplier dependency) - medium
- Key person dependency (low)
- Grant Disbursement (low)

Limitations of Scope

The scope of our review is limited to review of the key controls noted above.

Approach

Our audit approach is as follows:

- Obtain an understanding of the key governance 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.

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

Sub-process	Control Objectives
Governance and supplier management	<ul style="list-style-type: none">• There is an established succession planning process in place to ensure continuity in the event of senior officer absence;• Authorities and approvals are adequately designed and effectively and consistently applied in relation to payments; procurement; payroll and grant acceptance;• There are formal structures in place relating to the partnership board and committees;• There are formal processes in place which set out the remits of the board and committees the roles and responsibilities of senior officers; SEStran employees; the partnership board; and councillor and non-councillor members;• There is a formal process for the selection, education and training of new board members.• SEStran annually obtains third party supplier confirmations to confirm that third party services are compliant with all applicable regulations and legislation;
Strategy	<ul style="list-style-type: none">• Contingency plans have been developed to address key Brexit risks such as sourcing alternative funding and sharing information and best practice with European bodies;• The contingency plans are approved at the correct level, regularly reviewed, and updated to reflect ongoing Brexit developments;

	<ul style="list-style-type: none"> Ownership of contingency plans has been appropriately allocated.
Grant Disbursement	<ul style="list-style-type: none"> Grant payments are disbursed in line with the terms specified in Grant Offer Letters, with appropriate evidence of disbursement retained;

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
Lesley Newdall	Chief Internal Auditor	0131 469 3216
Elizabeth Maccallum	Internal Auditor	0131 469 3075

Key Contacts

Name	Title	Role	Contact Details
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Jim Grieve	SEStran Partnership Director (Acting)	Review Sponsor	0131 524 5160
Angela Chambers	SEStran Business Manager	Key Contact	0131 524 5154
Lisa Freeman	Strategy & Projects Officer	Key Contact	
Moira Nelson	Active Travel Strategic Development Officer	Key Contact	
Iain Shaw	CEC Principal Accountant	Key Contact	0131 469 3117

Timetable

Fieldwork Start	12 February 2018
Fieldwork Completed	02 March 2018
Draft report to Auditee	09 March 2018
Response from Auditee	23 March 2018
Final Report to Auditee	30 March 2018

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:

- Relevant background papers, as discussed at the 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.

Governance (including Supplier dependency)

- Copy of the scheme of delegation of role and responsibilities
- Evidence of the annual assurance from third party providers that they are compliant with applicable regulations and legislation

Strategy

- Contingency plans for Brexit

Grant Disbursement

- A sample of a grant offer letter

Appendix 2: Key Audit Stages and Responsibilities

Area	Principles	Further guidance
Planning the audit	Agreeing the audit scope and objectives	<ul style="list-style-type: none"> • 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.

		<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.