

Internal Audit Assurance

1. INTRODUCTION

- 1.1 The City of Edinburgh Council Internal Audit (IA) team performs one annual review to provide assurance over the controls established to mitigate certain key SEStran partnership risks.
- 1.2 The purpose of this paper is to provide an update on the outcomes of the 2021/22 SEStran IA review, and to request the Partnership's insights on areas for potential inclusion in the scope of the planned 2022/23 audit.

2. BACKGROUND, SCOPE AND OUTCOMES OF 2021/22 IA REVIEW

Audit Background

- 2.1 Topic 16 of the current SEStran Regional Transport Strategy focuses on the high priority development and promotion of urban cycle networks to support Active Travel, which is also a key strategic priority for the Scottish Government, with Transport Scotland (TS) committed to increasing cycling and walking for transport and leisure.
- 2.2 To support these Active Travel objectives various strategies have been published outlining cycle network principles, recommendations, and investment strategies. The most recent iteration, The SEStran Strategic Network - Cross Boundary Active Travel Routes Connecting People and Places report was published in May 2020 and set out a network of active travel routes to take forward to feasibility and design phases.
- 2.3 SEStran will be responsible for working in partnership with the local authorities to support the design of the projects, which will then be passed to the relevant local authorities for implementation.

Audit Scope

- 2.4 The scope of the 2021/22 IA review was to assess the adequacy of design and operating effectiveness of the key controls established by SEStran to support design of their Active Travel network development responsibilities, and effective management and allocation of external funding.

Audit Outcomes

- 2.5 The overall review outcome was effective (green) and confirmed that the control environment and governance and risk management frameworks established to support the design of projects, included in the Active Travel Strategic Network and management and allocation of external funding, were adequately designed and operating effectively.
- 2.6 This provides assurance that risks are being effectively managed, and that SEStran's objectives of designing projects for subsequent implementation by relevant local authorities should be achieved.

- 2.7 Whilst SEStran adopted a robust tendering process to secure contractors to complete the design of the projects in line with SEStran's Standing Orders, there is currently no established process to identify and record potential procurement conflicts of interest.
- 2.8 Additionally, whilst the Strategic Network sets out completion routes across five implementation phases, there is a key dependency on both the appetite of Partners and availability of funding, that will determine whether the full strategy can be achieved and drive its implementation timeframes.
- 2.9 Consequently, one low rated and one advisory finding were raised reflecting these points and are included at section 3 of the report.
- 2.10 A number of areas of good practice were also identified and are included in the opinion section of the report (section 2).
- 2.11 Management actions to address the two medium rated Internal Audit recommendations raised in the Covid-19 Resilience Arrangements review completed in May 2021 have also been effectively implemented and embedded.
- 2.12 The full report is included at Appendix 1.

3. 2022/23 INTERNAL AUDIT REVIEW

- 3.1 The Council's proposed 2022/23 Internal Audit annual plan will be presented to the Governance, Risk, and Best Value Committee on 8 March 2022, and includes one Internal Audit review for SEStran, which is consistent with the level of assurance provided in prior years.
- 3.2 The 2022/23 review is likely to be completed between January and March 2023, and potential areas for inclusion in scope have not yet been discussed with the SEStran management team.
- 3.3 Any insights or recommendations from the Board on key risks or areas of concern to consider for inclusion in scope of the planned 2022/23 IA review would be welcome.
- 3.4 The Internal Audit plan was considered by the Performance and Audit Committee at its meeting on 4 March 2022.

4. RECOMMENDATIONS

The Board is requested to:

- note the outcomes of the 2021/22 IA review, and the associated costs; and
- provide any insights or recommendations on key risks or areas of concern that the Board would like IA to consider including in the 2022/23 IA review.

Appendix 1: Internal Audit 2021/22 Report

Lesley Newdall

Chief Internal Auditor, City of Edinburgh Council

E-mail: lesley.newdall@edinburgh.gov.uk | Tel: 0131 469 3216

23 February 2022

Policy Implications	None
Financial Implications	SEStran is charged an annual fee for provision of the annual IA assurance review. The fee for 2021/22 is £5,000, which remains consistent with the 2020/21 fee applied.
Equalities Implications	None
Climate Change Implications	None

The City of Edinburgh Council

Internal Audit

South East of Scotland Transport Partnership (SEStran) **Active Travel Network Development**

Final Internal Audit Report

24 February 2022

OO2101

Overall report rating:

Effective

The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and that SEStran's objectives should be achieved.

Contents

1. Background and Scope	2
2. Executive summary	4
3. Detailed findings	5
Appendix 1: Basis of our classifications	7
Appendix 2: Areas of audit focus	8

This internal audit review is conducted for the South East Scotland Transport (SEStran) Partnership and is designed to help SEStran 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 are a number of specific recommendations 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 SEStran. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and the SEStran Partnership Board as appropriate.

1. Background and Scope

Background

In accordance with Transport (Scotland) Act 2005, The South East of Scotland Transport partnership (SEStran) is the established statutory regional transport partnership for the South East of Scotland. SEStran is a body corporate that includes eight local authorities across south east Scotland (City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Scottish Borders and West Lothian Councils) within its remit.

SEStran's vision is for a regional transport system that provides all citizens of south east Scotland with a genuine choice of transport that fulfils their needs and provides travel opportunities for work and leisure on a sustainable basis.

SEStran is a small organisation, operating with a combined core and projects budget of circa £1,472K (mainly sourced from government grants and local authority contributions) that is used to cover operational costs and deliver regional transport projects that are aligned with both the SEStran vision and the Regional Transport Strategy (RTS). These projects are delivered by a team of ten employees.

Active Travel Networks

Active travel means getting about in a physically active way, like walking or cycling. It usually means short journeys and can include walking to the shops or local school, cycling to work or to see friends and family, or cycling to the train station.

[Topic 16 of the current SEStran RTS](#) focuses on the high priority development and promotion of urban cycle networks to support Active Travel, which is also a key strategic priority for the Scottish Government, with [Transport Scotland](#) (TS) committed to increasing cycling and walking for transport and leisure.

To support these Active Travel objectives, SEStran produced the following strategic documents that were based on desktop studies; consultation; and 'audits' of existing Active Travel infrastructure and routes.

1. [Strategy for Investment in Development of a Strategic Urban Cycle Network](#) in February 2010 that outlined SEStran's vision for a new cycling infrastructure across the region that would be given a status equal to that of the provision of new infrastructure for other road users, and should support completion of 6.3% of journeys to work by bicycle by 2023.

The strategy included 13 urban cycling network principles and costed recommendations for development of a strategic regional cycle network to support cyclists across the short; medium; and longer term.

2. The SEStran [Strategic Cross Boundary Cycle Development](#) report published in June 2015 aimed to guide investment in cross-local authority boundary sections of the cycling network, with particular focus on routes suitable for commuters.

The report included a list of barriers; missing links; and solutions to support the cross-boundary commuter cycling network. These solutions were not costed, but assessed investment criteria as either low; medium or high.

3. [The SEStran Strategic Network – Cross Boundary Active Travel Routes Connecting People and Places](#) report published in May 2020 built on the previous studies with ongoing focus on developing and improving cross boundary commuter routes. This work was completed in partnership with eight local authorities and partners.

A range of improvement proposals were identified and assessed using a multi criteria assessment methodology to determine their impact and prioritise potential implementation. This was supported by completion of a further cost benefits analysis, and identification of a number of 'quick wins' that could deliver immediate benefit.

Delivery of the network routes was then allocated into five phases with those that should deliver the greatest benefit to be introduced first. Each route was also allocated an approximate or 'banded' cost.

SEStran Active Travel Network Development Responsibilities

SEStran will be responsible for working in partnership with the local authorities to support the design of the projects, which will then be passed to the relevant local authorities for implementation.

To support this, £200K funding from both Transport Scotland and SUSTRans (Sustainable Transport) has been secured and used to procure local consultants to review and prepare the design of the projects for presentation to and agreement by the relevant local authorities, with four projects currently in progress. This process involves significant external consultation, and the consultants provide regular progress updates to both the local authority and SEStran.

Transport Scotland also has the following specific grant funding requirements that SEStran must comply with:

1. Proposals submitted annually with approval and confirmation of funding received in April.
2. Quarterly reports provided to support financial claims for projects in progress.
3. Final summary report provided at the end of each financial year.
4. Six monthly evaluation report provided in relation to funding provided in previous year – this includes a self-assessment against funding requirements.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established by SEStran to support design of their Active Travel network development responsibilities, and effective management and allocation of external funding.

Progress with implementation of the two medium rated Internal Audit recommendations raised in the Covid-19 Resilience Arrangements review completed in May 2021 was also considered.

Limitations of Scope

The review was not intended to provide assurance on the content of the May 2020 [Strategic Network – Cross Boundary Active Travel Routes Connecting People and Places](#) report, but to consider how effectively this has been used as a baseline to support prioritisation of project design and allocation of funding.

Recognising that current active travel projects are at the feasibility assessment stage, our review was limited to providing assurance on the design of the engagement and consultation process to be applied once the design of relevant active travel initiatives has been completed.

Reporting Date

Our audit work concluded on 21 February 2022, and our findings and opinion are based on the conclusion of our work as at that date.

2. Executive summary

Total number of findings: 2

Summary of findings raised	
Low	1. Identifying and recording conflicts of interest
Advisory	2. Strategic risk associated with delivery of the Strategic Network

Opinion

Effective (green)

Our review confirmed that the control environment and governance and risk management frameworks established to support the design of projects included in the Strategic Network and management and allocation of external funding, were adequately designed and operating effectively. This provides assurance that risks are being effectively managed, and that SEStran's objectives of designing projects for subsequent implementation by relevant local authorities should be achieved.

Additionally, management actions to address the two medium rated Internal Audit recommendations raised in the Covid-19 Resilience Arrangements review completed in May 2021 have been effectively implemented and embedded.

The May 2020 Strategic Network document sets out SEStran's vision to work collaboratively with Partners to deliver a network of cross boundary active travel routes across the South East of Scotland area.

Whilst the Strategic Network sets out completion of these routes across five implementation phases there is a key dependency on both the appetite of Partners and availability of funding, that will determine whether the full strategy can be achieved and drive its implementation timeframes. Recognising this, an advisory finding has been raised recommending that this strategic risk is included in the SEStran risk register and shared with the Board.

Currently, SEStran is designing the travel routes detailed in the Strategic Network using contractors as funding becomes available.

Our review confirmed that a robust tendering process has been adopted to secure contractors to complete the design of the projects included in the Strategic Network. This process included clear specifications for tendered works, with assessment of submissions consistently and fairly undertaken in line with best practice.

We confirmed that SEStran currently has no established process to identify and record potential procurement conflicts of interest. Whilst it is acknowledged that professional staff should be expected to declare conflicts of interest, in the absence of a formal process, such instances may not be identified.

Consequently, 1 low rated and 1 advisory finding has been raised.

Further information is included at Section 3.

Areas of good practice

- Tailored tender specifications were proportionate to the work being procured and include (where applicable) the requirement for suppliers to detail their project management methodology and approach to consultation and engagement.
- Assessment of tender submissions is undertaken in a fair and consistent manner, aligned with best practice and tailored to the requirements of each piece of work undertaken.

- Project management (minute taking, project risk, change management) is outsourced to suppliers where applicable with oversight from SEStran Officers. This reduces the administrative burden on SEStran Officers.
- In recognition of delays to implementation of the Strategic Network resulting from COVID-19, the first tender specification prepared in relation to the Strategic Network included additional resource to continue engagement with Partners, which is considered a fundamental requirement to support delivery of the Strategic Network.

3. Detailed findings

1. Conflicts of interest	Low
<p>SEStran's Standing Orders Part 5: Contract Standing Orders paragraph 3 outlines that no employee of SEStran who has an actual, or potential conflict of interest or a direct or indirect pecuniary interest in a tender should be involved in the tendering process.</p> <p>Our review identified that there is no formal process for identifying and recording actual, potential, or perceived conflicts of interest of Officers on a routine basis, or during the tender process.</p>	
Risks	
<p>The potential risks associated with our findings are:</p> <ul style="list-style-type: none"> • When COIs are not properly managed the outcomes could lead to antitrust violations; bribery, corruption or fraud; competition disadvantage; data breaches; or insider trading. 	
1.1 Recommendation: Conflicts of interest declarations	
<ol style="list-style-type: none"> 1. We recommend that an appropriate process is designed and implemented that requires staff to declare any actual, potential, or perceived conflicts of interest, including nil return, on a routine basis (e.g. annually), after a significant change in personal circumstance, and at the preparation and planning stage of any new procurement. 2. Guidance should be provided to ensure that conflicts of interest are clearly defined and understood by all staff involved in the procurement of goods and services, and that they are aware of their responsibilities in relation to conflicts of interest. 	
1.1 Agreed Management Action: Conflicts of interest declarations	
<p>Guidance will be added to our Anti-bribery Policy and Procedures to the effect that staff will be required to declare any potential conflicts of interest</p>	
<p>Owner: Jim Grieve, Partnership Director</p> <p>Contributors: Angela Chambers, Business Manager</p>	<p>Implementation Date: June 2022</p>

2. Strategic risk associated with delivery of the Strategic Network	Advisory
<p>The Strategic Network sets out completion of its routes across five implementation phases, however there is a key dependency on both the appetite of Partners, and availability of funding, that will determine whether the full strategy can be achieved and drive its implementation timeframes.</p> <p>SEStran's risk register includes general risks relating to project appraisal and delivery which has a net risk score assessed as low, and reputation which is also has a net risk score assessed to be low. There is no specific risk recorded detailing the inherent risks associated with this project, or the mitigating controls put in place to manage the risk.</p>	

2.1 Recommendation: Strategic risk associated with delivery of the Strategic Network

Given the findings detailed in this report, it is recommended that SEStran documents the inherent reputational risk associated with the Strategic Network, and its reliance on external Partners and sources of funding becoming available to drive its delivery.

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 that would prevent SEStran from being able to operate in the long term*; • Critical material monetary or financial statement impact in excess of external audit's financial statements materiality threshold that would impact SEStran's ability to continue as a going concern; • Critical breach in laws and regulations that could result in material fines or long-term consequences; or • Critical impact on the reputation of the organisation which could threaten its future (long term) viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance that would prevent SEStran from being able to operate in the medium term**; • Significant monetary or financial statement impact that is below the external audit's financial statements materiality threshold, but requires an adjustment to the financial statements; • Significant breach in laws and regulations that could result in material fines or medium-term consequences; or • Significant impact on the reputation of the organisation which could threaten its future (medium term) viability.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance that would prevent SEStran from being able to operate in the short term***; • Moderate monetary or financial statement impact that is below the external audit financial statements materiality threshold, but requires an adjustment to the financial statements; • Moderate breach in laws and regulations resulting in moderate fines and short-term consequences; or • Moderate impact on the reputation of the organisation that could threaten its future (short term) viability.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on operational performance that does not prevent SEStran from being able to operate; • Minor monetary or financial statement impact that is below the external audit financial statements materiality threshold, and does not require an adjustment to the financial statements; • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation that does not threaten its future viability.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

* **Long term** - a period of one year or more

** **Medium term** - a period of 3 to 12 months

*** **Short term** - a period of 1 to 3 months

Appendix 2: Areas of audit focus

The areas of audit focus and related control objectives included in the review are:

Audit Area	Control Objectives
Strategy	<p>SEStran has developed an appropriate strategy to support their Active Travel network development responsibilities including:</p> <ul style="list-style-type: none"> • prioritisation of planning for the design projects in alignment with the May 2020 Strategic Network – Cross Boundary Active Travel Routes Connecting People and Places report • identification of all relevant partners • agreement of roles and responsibilities with relevant local authorities and partners (including governance and oversight responsibilities) and establishing partnership agreements (where required) • identification and procurement of consultants and temporary resources required • evaluating and sourcing funding to support project delivery.
Procurement and Project Management	<ol style="list-style-type: none"> 1. All external consultants have been appropriately and consistently procured using a standard framework, with all tenders consistently assessed and outcomes recorded. 2. A clear requirement specification has been produced and agreed with all temporary employees and consultants engaged. 3. A clear project management methodology has been defined and consistently applied to support all projects. This should include: <ul style="list-style-type: none"> • a business requirements specification that outlines the detailed scope of each project • a change management process that records the rationale for and obtains approval of all changes to the original scope • a multi criteria analysis for each project • a project plan that includes key delivery dates and project dependencies • ongoing updates to project plans (as required) • identification, assessment, recording, and management of any risks that could potentially impact the project • clear guidance on how to assess the current status of individual projects (for example red; amber; green with supporting definitions) • standard project reporting that provides regular progress updates to relevant SEStran Committees and the Board, and enables consistent comparison of progress across projects • an escalation process that can be applied to highlight any significant issues out with the routine governance reporting cycle • appropriate project management teams are in place that include representation from relevant partner organisations where applicable • project management team meetings are minuted with details of agreed actions recorded, together with completion responsibilities and timeframes

	<ul style="list-style-type: none"> actions are tracked, reviewed and updated at subsequent meetings.
Management and Allocation of Funds	<ol style="list-style-type: none"> All external funding received has been accurately recorded in relevant SEStran accounts and allocated against relevant projects. The terms of external grant funding received are clearly understood and have been communicated to all relevant project team members. Processes have been established to record how grant funding has been utilised, with supporting documentation (e.g. invoices) retained. Processes have been established to support generation and provision of financial reports to relevant bodies (for example Transport Scotland). All reports produced are reviewed by management to confirm that they are complete and accurate prior to submission. Regular checks are performed to ensure ongoing compliance with external funding requirements. Where breaches are identified, these are immediately escalated to management and reported to the relevant funding provider.
Engagement and Consultation	<p>A standard engagement requirement has been designed for consultants, which is included in project tender documentation and contracts and consistently applied across all relevant projects, including:</p> <ul style="list-style-type: none"> guidance on how to establish the population to be consulted standard questions to be included as part of each consultation process guidance on how to define consultation questions that are specific to individual projects consultation timeframes guidance on how to publish / communicate the consultation exercise and engage all relevant parties identified guidance on how to collate and assess consultation outcomes, including identification of themes within individual projects and themes across all ongoing projects guidance on how to incorporate consultation outcomes into the scope of relevant projects and provide feedback to those involved in the consultation process.